FINANCIAL TIMES

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French fishermen abduct UK Royal Navy officers

Three Royal Navy officers were finally returned to their ship after French fishermen abducted them as they boarded a French trawler in British waters. The French vessel ignored orders to make for the UK's Channel Islands and headed for the French port of Cherbourg with the officers on board. In a separate incident, French fishermen in Cherbourg seized a Royal Navy patrol boat, HMS Blazer, buring its white ensign flag.

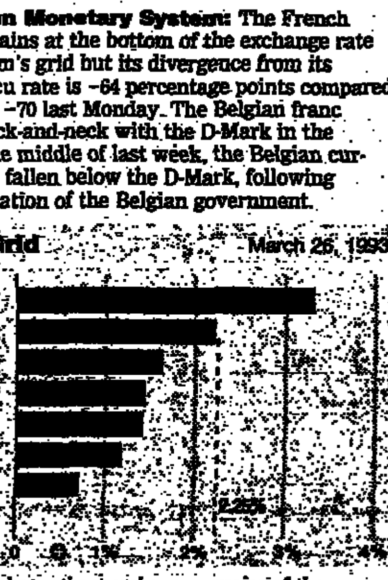
Bosnian ceasefire holds: A ceasefire from noon yesterday, agreed by Bosnia's three warring parties, appeared to be holding, as a long-delayed United Nations relief convoy reached the besieged eastern town of Srebrenica, where 60,000 people are desperate for aid. Page 14

IBM rivals throw doubts on Gerstner: IBM's competitors moved swiftly over the weekend to capitalise on uncertainty created inside and outside the world's largest computer maker by the appointment as chief executive of Mr Louis Gerstner, who has no computer industry experience. Page 15

News Corporation seeks $3bn loan: Rupert Murdoch's News Corporation is seeking a $3bn revolving loan from a group of international banks, to help refinance outstanding debts at lower interest rates. Separately, Mr Murdoch is expected today formally to propose in a New York bankruptcy court to take control of tabloid newspaper The New York Post. Page 15

European Monetary System: The French franc remains at the bottom of the exchange rate mechanism's grid but its divergence from its central Ecu rate is −64 percentage points compared to around −70 last Monday. The Belgian franc is now neck-and-neck with the D-Mark in the grid. In the middle of last week, the Belgian currency had fallen below the D-Mark, following the resignation of the Belgian government.

EMS: Grid March 26, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

US defence moves delayed: The Clinton administration has postponed all big decisions on military force structure and defence equipment programmes until it has finished a "bottom-up review of defence needs and programmes". Page 6

Threat to new UK rail terminal: A £130m ($184m) international rail terminal being built at London's Waterloo station, the UK's biggest station project since the last century, could become obsolete six years after opening if the Channel tunnel rail link is built as planned. Page 14

Irish rally calls for peace: About 15,000 Irish demonstrators, led by a Dublin woman, held an emotional rally in protest at the IRA killing of two children in a bomb blast in England. A small Republican counter-demonstration before the protest rally was booed off.

Trade talks seek to avert US sanctions: Senior US and European Community trade officials hold critical talks in Brussels today aimed at averting US sanctions over EC government purchasing policies, and at restoring momentum to stalled talks on global trade liberalisation. Page 14; Growth in world trade speeds up after three years, Page 6; Trade apostle with his eye on the ball, Page 13

Nigeria elections candidates emerge: Two millionaire businessmen close to military leader Ibrahim Babangida looked set to emerge as presidential candidates in Nigerian elections in June.

Glaxo, Europe's biggest drugs company, has agreed to demands by the US Food and Drug Administration that it withdraws some promotional claims about its ulcer treatment drug Zantac. Page 15

S Korea train crash kills 67: At least 67 passengers were killed and more than 120 injured when an express train left the rails and turned over in South Korea.

PLO delays decision: The Palestinians are to defer a decision on whether to attend the next round of Middle East peace talks. PLO chairman Yassir Arafat said the issue would be decided on April 8. Page 3

European software body planned: A group of leading computer companies and their customers are seeking to improve Europe's competitiveness through a new research institute in Bilbao. Page 2

Diamond exchange: The first diamond exchange in Eastern Europe opened in Prague, with organisers saying they hoped it would bring trade with diamonds in the Czech Republic under control.

Austria	Sch30	Greece	Dr300	Lux.	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft172	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	India	Rs40	Neth	Fl 3.75	Slovak Rp	Kcs45
Cyprus	C£1.00	Indonesia	Rp3600	Nigeria	Naira25	Spain	Pta200
Czech Rp.	Kcs45	Israel	Shk5.90	Norway	NKr16.00	Sweden	SKr15
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Switz	SFr3.20
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Syria	S£50.00
Finland	FM12	Korea	Won 2500	Philippines	Peso45	Thailand	Bht50
France	FFr8.50	Kuwait	Fils500	Poland	Zl22,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	Turkey	L7000
						UAE	Dh11.00

President strengthens his position after deputies reject compromise

Ballot to impeach Yeltsin fails in Congress

By John Lloyd and Leyla Boulton in Moscow

MR Boris Yeltsin, the Russian president, yesterday survived a vote on his impeachment by the Congress of Peoples' Deputies. His rival, Mr Ruslan Khasbulatov, the parliamentary speaker, survived a simultaneous vote of no confidence.

In a secret ballot, deputies cast 617 votes in favour of impeaching Mr Yeltsin, well short of the 689 required to remove him from office.

It said about 400 members voted to oust Mr Khasbulatov, below the 517 needed for his dismissal.

The attempt to remove both men was a furious reaction by the Russian parliament to an overnight compromise agreement by the two arch-rivals which would have called early elections and abolished the legislature.

The vote against Mr Yeltsin's impeachment appears to mean that he retains the special powers he declared for himself last week. Under these powers, his decrees and instructions can be challenged only by the Constitutional Court and not by parliament.

Mr Yeltsin drew strength yesterday from a rally of about 60,000 supporters, which gathered behind St Basil's Cathedral, just outside the walls of the Kremlin. He addressed them soon after a compromise offer had failed. He said he would "not submit to any decision of the Congress to impeach me".

The rally, led by Mr Yegor Gaidar, the former prime minister, Mr Genady Burbulis, the former presidential aide and others, heard Mr Gavril Popov, leader of the Movement for Democratic Reform, say that "we're living badly because we're conducting the reforms badly. They're trying to turn out the president because he wants to deepen the reforms – but the people won't let them".

PAGE 5
- Yeltsin rides the peaks and troughs of Congress
- G7's reluctant convert to Russia's cause

A rival gathering of some 10,000 nationalists and communists rallied on the Manezh Square to hear a succession of calls for the impeachment of the president. In contrast to the pro-Yeltsin rally, this was heavily policed, with mounted militia, armoured cars and water cannons ringing the relatively small group.

It is the first Congress for over a year from which Mr Yeltsin has emerged strengthened, with no muddled compromise constraining his actions. However, on Saturday he had used his promised plebiscite on trust in the president on April 25, which he had represented as a critical opportunity to listen to the voices of the people, as a bargaining chip: he offered to cancel the plebiscitein exchange for an election in November for the president and a new two-tier parliament.

However, deputies rejected this compromise – agreed between Mr Yeltsin, Mr Khasbulatov and Mr Victor Chernomyrdin, the prime minister – and then proceeded to vote themselves the right to ballot on the future of both Mr Yeltsin and Mr Khasbulatov.

The speaker, who had made several dramatic turnabouts over the past few days, finally aroused the ire of the deputies who – according to one – had "grown plain sick of him".

Several dangerous elements remain:

- The president and the parliament are now more bitterly opposed than ever. Deprived of the opportunity to impeach him by parliamentary means, hardline opponents will be tempted increasingly to turn to extra-parliamentary protest.
- The Congress passed a resolution taking control of TV and radio into its hands, by demanding the right to appoint supervising committees over all the stations with the right of appointment of the chairmen and of interference in programmes.
- Mr Yeltsin's main argument for his actions, underscored on Saturday by Mr Chernomyrdin, is the "catastrophic" state of the economy and the need for rapid action. However, these actions – such as stemming the flow of credits and increasing unemployment – will weaken his still impressive popularity and give extra support to his opponents.
- The president will be tempted, in the period to the April 25 plebiscite, to pass measures which will increase support in him by paying out extra benefits.

Jurek Martin, US Editor, adds from Washington: Mr Warren Christopher, the US secretary of state, yesterday said the US would be "very steady" in its support of reform in Russia, of which "by far the best exponent is Boris Yeltsin".

Interviewed on TV as the Russian parliament voted on the impeachment motion, he said Mr Yeltsin was right to have called a plebiscite.

Survivor: Boris Yeltsin clenches his hands in anticipation of triumph in yesterday's impeachment vote

Yeltsin supporters say no compromise

THEY ALL showed up yesterday: the destitute pensioners, the flashy entrepreneurs, the impoverished intellectuals and professionals and the manual workers, writes Leyla Boulton in Moscow.

Just as he was offering to give up the referendum he had called for April 25, President Boris Yeltsin's supporters turned out in their biggest numbers since the August 1991 coup to urge him to stop compromising with his conservative opponents.

"Enough Compromises with Communist Criminals," said a banner attacking the parliament. There were also attacks on its speaker, Mr Ruslan Khasbulatov, who was likened to Stalin and urged to return to Chechnya, the rebellious southern region which has declared independence from Russia and recalled him as its deputy.

But by the time tens of thousands marched from the town centre to the gates of the Kremlin, the congress vote to reject any compromise with the Russian leader gave him no choice but to swear to the rally "that the time of compromises is over" after he was publicly challenged by Ms Elena Bonner, the 70-year-old widow of human rights leader Andrei Sakharov.

Mr Yegor Gaidar, the former prime minister who launched the market reforms now under attack from conservatives for impoverishing the people, drew some of the loudest applause.

"We may eat only bread, but we must be free of these Communists who choked Russia for 70 years," said Klava, a retired metalworker and one of the millions of pensioners whose living standards have been ravaged by the reforms. "We won't die, we will survive."

With pop music, snack stalls, and portable lavatories provided by the Moscow mayor's office, the lightly policed event was in stark contrast to another demonstration in Red Square. There, some 300 baton-wielding police hemmed in a demonstration of a few thousand Communists and extreme nationalists who have found common ground.

French right wins election landslide

By David Buchan in Paris

THE sweeping victory of France's conservative parties was last night confirmed in exit polls, which predicted they had won all but around 100 out of the 577 National Assembly seats in yesterday's run-off election.

Within the victorious coalition, the Gaullist RPR party won more seats than its UDF partner, making it highly likely that President François Mitterrand will choose the new prime minister from within the RPR's ranks.

Mr Jacques Chirac, the RPR leader, whose main ambition is to succeed Mr Mitterrand in the presidency in 1995, indicated that he did not expect to be the new premier.

The new government would have "all my support", he said. Mr Chirac's preferred candidate for the premiership is Mr Edouard Balladur, the RPR finance minister in the conservatives's first *cohabitation* government under President Mitterrand.

Early exit polls gave the Socialists 68 or slightly more seats, compared to the 277 which they and their minor allies had held in the last parliament. The Socialist rout was dramatically underscored by the defeat of Mr Michel Rocard, who had hoped to be the Socialist standard-bearer in the 1995 presidential contest.

Another Socialist heavyweight to fall last night was Mr Roland Dumas, foreign minister, who failed to keep his Dordogne seat.

The turn-out appeared to be no higher than the 68.9 per cent in last week's first round of voting. The outgoing Socialist government thus failed in its call on left-wing voters and abstentionists to rally behind it to limit the size of the centre-right landslide.

Under the French parliamentary system, in which 58 votes are needed to to launch censure motions against the government, the Socialist may barely survive as an effective opposition. But they will get support from the Communists who appeared to have kept 20 of their seats.

The extreme right-wing National Front seemed to have won only a couple of seats, and its leader, Mr Jean-Marie Le Pen, lost his bid for a seat.

Background, Page 2
Editorial comment, Page 13

Fresh probe into Mafia links of Italian politicians

By Robert Graham in Rome

FIVE political bosses in Naples were warned yesterday that they were under investigation for alleged association with the city's organised crime families, the Camorra.

This follows the move by Palermo magistrates over the weekend advising Mr Giulio Andreotti, the veteran Christian Democrat politician who has served seven times as prime minister, that he is under investigation for allegedly consorting with the Sicilian Mafia.

These latest moves confirmed the shadowy links between the Mafia and the political establishment have become a central issue in Italy's corruption scandals.

Mr Andreotti, 74, and now a life senator, is the most senior political figure to have received such a warning. He released the news and proceeded to defend himself vigorously.

Parliament has been sent a dossier concerning Mr Andreotti running to over 200 pages, and this will form the basis of whether his parliamentary immunity will be waived.

As Italy's post-war political establishment has been progressively incapacitated by more than a year's investigations into corruption in the north of the country, the politicians' long suspected links with organised crime in the south have scarcely been touched.

Naples magistrates have begun to act after years of inactivity or investigations which were deliberately buried. Within the past 48 hours, 18 members of parliament and Euro-MPs have been warned they are under investigation for alleged corruption and half the city council has been arrested.

All the Naples political bosses have been caught in the net, and the magistrates are now following even more potentially explosive leads of their alleged links with the local Mafia.

These served notice yesterday are already involved in investigations for corruption. The most notable are two former Christian Democrat ministers – Mr Antonio Gava and Mr Paolo Cirino Pomicino. Last night, Mr Gava, a former interior minister, resigned as leader of the Christian Democrat group in the senate and his seat on the joint parliamentary commission for constitutional reform. Both he and Mr Pomicino, a former finance minister, denied any involvement with the Mafia.

According to leaks from Palermo magistrates, they wish to question Mr Andreotti over his connections with Mr Salvatore Lima, the Christian Democrat Euro-MP who was assassinated by the Mafia last March. Mr Lima, the most powerful politician in Sicily, was a close friend of Mr Andreotti and was widely considered to have acted as an intermediary with Rome.

Investigations into Mr Lima's death and the subsequent assassination of the two leading anti-Mafia magistrates, Mr Giovanni Falcone and Mr Paolo Borsellino, lie behind the magistrates' move on Mr Andreotti. His alleged mediation with the Mafia has been referred to by at least three and perhaps six former members of Sicilian clans who are now co-operating under plea bargaining programmes. Mr Andreotti claimed that these confessions were nothing more than a vendetta for having initiated under his premiership a drive against organised crime.

Mr Andreotti has been in government since 1946 and has held every office of state except the presidency. He has been named in 26 different parliamentary inquiries over the years. But he has proved a remarkable survivor and he has maintained his reputation until the Lima affair despite a friendship with Mr Michele Sindona, the disgraced banker, and Mr Licio Gelli, the grand master of the secret masonic lodge, P2.

In recent weeks Mr Andreotti has seen all his key supporters become caught up in corruption

Continued on Page 14

CONTENTS

 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

FRENCH ELECTIONS

Chirac's party in strong position to dictate terms

By Alice Rawsthorn in Paris

MR Jacques Chirac's Gaullist RPR party was last night on course to become the biggest single force in the new French parliament, according to early exit polls by the Sofres market research consultancy.

The Sofres polls, which were conducted before the end of the second round of voting in Paris but which are generally regarded as reliable indicators, suggested that the RPR would emerge with 253 of the 577 seats in the National Assembly, comfortably ahead of the UDF, its main partner in the conservative coalition, with 214 seats.

This leaves the RPR in an extremely strong bargaining position when it comes to the choice of prime minister, who is selected by the French president but who traditionally comes from the largest party in the National Assembly, and also in the allocation of ministerial posts.

Mr Chirac, who was prime minister in the last *cohabitation* government from 1986 to 1988, has made it clear that he does not want the job again, saying that the thought "sends shivers down my spine".

The RPR leader, who is now favourite to win the 1995 presidential elections, does not want to risk a repetition of the embarrassing, humiliating clashes with Socialist President François Mitterrand, which he believes cost him the 1988 presidential campaign.

However Mr Chirac is keen for an RPR candidate to be chosen as prime minister, preferably Mr Edouard Balladur, a mild-mannered man who served as finance minister in the last conservative government.

Last week Mr Mitterrand threatened to choose a premier from outside the RPR if Mr Chirac persisted in his calls for the president's resignation.

Mr Mitterrand is in principle still free to look outside the RPR for his prime minister, but the scale of the Gaullists' lead over the UDF makes it considerably less likely that he will do so.

The RPR's ascendancy should also help Mr Chirac in his bargaining with the UDF over cabinet posts, thereby having important implications for the future of French policy.

There are significant splits between the two conservative parties on important areas of policy, notably in foreign affairs, where the Gaullists are far less enthusiastic than the UDF about continuing France's close monetary links with Germany and much more aggressive about sabotaging last summer's European community agricultural reforms.

However the RPR's room for manoeuvre will be restricted by the influence of President Mitterrand who has the right to veto cabinet appointments and who will be particularly anxious to establish his own authority, as head of state, over foreign affairs.

But there is little that the president, or even Mr Chirac, can do to muffle the rogue voices in the Gaullist camp, notably those of Mr Charles Pasqua and Mr Philippe Séguin, who led the anti-Maastricht campaign in last autumn's referendum and have since argued forcefully for the devaluation of the franc.

Their party's success may make the RPR rogues even more confident about raising their voices in future.

Franc's defence dictates need for new relationship with Germany

ASSEMBLÉE NATIONALE
Elections '93

THE key element in the new French conservative government's foreign, as well as domestic, policy will be maintaining the franc's parity with the D-Mark, as the only achievement which still holds the door open to eventual European monetary and political union. But that does not mean France's external policy will be unchanged.

Indeed, it is precisely to maintain the departing Socialist government's strong currency stance – at a time of wide recession in Europe and record real interest rates at home – that France's new centre-right governors want a new relationship with Germany.

All that is mentioned in the joint RPR and UDF manifesto is the need for a "new initiative" with Germany in the monetary field. But this is just one – though the most important – element of a package deal, including a more aggressive European commercial stance and recognition of Germany's greater geo-political status, which the new government seems to want to present to Germany.

If the government can get Germany to agree, it believes that President François Mitterrand will have no cause to try to exercise his prerogative in foreign policy. If the Germans balk, and if an EC crisis erupts, then France's new government may well face trouble from its president and from abroad.

The new initiative towards Germany, says an adviser to Mr Edouard Balladur, the preferred RPR candidate for prime minister, "will not be the caricature" often presented by conservative politicians or by the French employers' federation; France's new prime minister will not dash across the Rhine to deliver an ultimatum that Bonn and Frankfurt must somehow find a way to reduce German interest rates by a set percentage by a set date.

Rather, this adviser says, the new government will take "France's first opportunity since the fall of the Berlin Wall to discuss a new relationship with Germany calmly" in an atmosphere unencumbered by the long Maastricht treaty negotiations. This would involve getting the Germans to acknowledge that with their goal of integrating the eastern Länder into the federal republic taking priority over all else, they no longer provide the model of "balanced growth" for Europe to aim at; that France is now a better approximation of this model; and that, at the very least, Germany must share its anchor position in the European monetary system with France.

What does this "sharing" mean? The

David Buchan examines plans to maintain a strong currency stance

answers here are a bit vague. It does not seem to mean the German government making any precise promise on interest rate cuts, which only the Bundesbank can deliver on. RPR advisers believe France has a margin of manoeuvre to lower its interest rates in the coming months, because its short-term rates are a couple of points above German ones, because French inflation is half the German rate of price increases, and because German short-term rates will probably come down another 1-2 percentage points in the next six months.

What the new government absolutely does not want to do is to have to respond to some short-term speculative crisis by raising French rates. RPR advisers see the run-up to Denmark's second Maastricht referendum on May 18 as one such danger point, even if, as expected, the Danes ratify the treaty. If Denmark votes the treaty down, making subsequent UK ratification improbable or irrelevant, then the scenario changes to one in which Germany would join France and some other countries in announcing a new monetary union plan.

So, within its first two months, the new government would like some public show of monetary co-operation from Germany. Narrowing the franc/D-Mark fluctuation bands in the EMS is mentioned in Paris, but the Bundesbank might object that such a move would make its intervention in support of the franc more predictable, and therefore harder to wrong-foot speculators.

But it seems likely that Paris will expect some early gesture from Germany to reciprocate its promise to create an identikit Bundesbank by giving the Banque de France autonomy in monetary policy-setting.

The new government's persuasive powers may be taxed even harder on trade. But France's conservatives have campaigned themselves to victory on complaints that the European Commission, passively aided and abetted by the outgoing French Socialist government, has been dangerously derelict in its duty to protect not only agriculture but also industry from unfair international competition.

Europe is being asked to open up too fast on too many fronts, goes the conservatives' argument in Paris. If Germany wants freer trade with eastern Europe, then it must join France in ensuring the EC takes a tougher line in Gatt negotiations.

In return for changing tack on monetary and commercial policy, the new French government will support Germany's case for a permanent seat on the UN Security Council. Mr Alain Juppé, the RPR secretary-general who wants to be the new foreign minister, has been quite explicit about playing this political card.

Will Germany buy such a deal? Mr Klaus Kinkel, German foreign minister, has suggested in French minds that it would. The minister has been as keen in public to welcome an eventual Security Council seat for his country as he has been overtly impatient about French obstructionism in Gatt. But another senior German minister has retorted recently that there could be "no deal" on this basis, and that most Germans are not interested in Security Council prestige to compromise on their basic economic interests.

France's Gaullist politicians may therefore be deluding themselves into reading into German minds their own reactions to Security Council status.

If the new government can plausibly show some success in its "new initiative" towards Germany, then it may find it easier to soft-pedal on agricultural policy. France will continue to oppose the draft EC-US deal on farm trade; the incoming conservatives are just angry that the outgoing Socialists have left it to them to possibly wield France's veto. But Mr Jean-Pierre Soisson, the departing farm minister, has shown them it is possible to use guerrilla tactics in Brussels to adapt last year's reform of EC farm policy more to French interests, instead of trying to rip the reform up.

In defence policy, the new government will probably continue to edge France nearer to operational co-operation with Nato. Mr Jacques Chirac, the RPR leader, is clearly persuaded that with a less US-dominated alliance, there can be a place for France.

But the Socialists have left one political trap for the new government, by suspending nuclear weapons tests. Resuming such tests – if the US and Russia continue their own test bans – could prove explosive, in more than one sense.

Mitterrand keen to make mark on the new team

By Alice Rawsthorn

ONCE the final tally of votes in yesterday's parliamentary election is proclaimed this morning, France will move on to the other issues which will determine its political fortunes for the next two years – the choice of the prime minister and the cabinet.

The conservatives' victory has been regarded as a foregone conclusion for so long that President François Mitterrand has had plenty of time to mull over the various contenders for the premiership. In theory he has a free choice, but in practice he must choose a candidate who can command a majority in parliament.

The first step towards announcement of the new French premier will be the resignation of Mr Pierre Bérégovoy, the present incumbent. He is expected this morning to go to the Elysée Palace to tender his resignation personally to the president.

Mr Mitterrand has traditionally tended to disclose the name of the new prime minister later on the same day; he did so in 1986 at the start of the last *cohabitation* government, when he announced in the evening his choice of Mr Jacques Chirac, head of the Gaullist RPR party.

The president has an empty agenda today. But he may wish to delay announcing any decision either because he is genuinely undecided or because, characteristically, he wants to keep the conservatives on tenterhooks. The only constraint is that he must appoint a premier in time for the first session of the National Assembly on Friday, which means he has to make his choice by Wednesday evening at the latest.

The next step will be the selection of the new cabinet, which must also be approved by Mr Mitterrand. The president objected in 1986 to Mr Chirac's suggested candidates for foreign affairs and defence.

The president is almost certain to object to at least one of the new prime minister's suggestions this time, if only because he will consider it critical that he exerts his influence as quickly as possible over the new *cohabitation* government.

He will also be anxious to use his power over the choice of cabinet members to exploit any potential rifts between the conservative parties.

The next important date is Friday, when the new National Assembly will meet for the first time and appoint its next president to replace the Socialist Mr Henri Emmanuelli. The constitution stipulates that new parliaments must begin either on October 2 or April 2, to avoid the ignominy of a new French government starting on April Fool's Day, or *jour de poisson* as it is called in France.

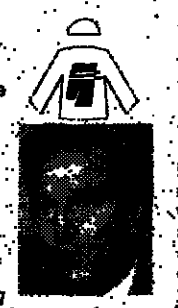
Jockeying for power in a conservative government

ASSEMBLÉE NATIONALE
Elections '93

RPR: Rassemblement pour la République. The Gaullist party; more nationalist than its UDF partner (see below). Both RPR and UDF campaigned in support of privatisation, budget cuts and autonomy for the Banque de France. Large majority of RPR leaders favour keeping the franc strong. The RPR, for which most farmers vote, is very hostile to EC and Gatt agriculture reforms.

UDF: Union pour la Démocratie Française. Federation of five centre-right parties. Fought on common platform with RPR. However, UDF more free-market and pro-EC and more favourable to decentralisation than RPR.

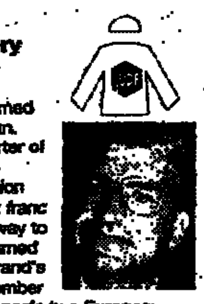
CDS: Centre des Démocrates Sociaux. Small party affiliated to UDF. French version of Christian Democrats.



Jacques Chirac
Aged 61. Leader of the RPR. Prime minister twice, once (1974-6) under Giscard d'Estaing and once (1986-88) under Mitterrand, and does not want the job again. Is already effectively running for the presidency to succeed Mitterrand in 1995, and wants to place government in hands of his trusty lieutenant, Edouard Balladur.

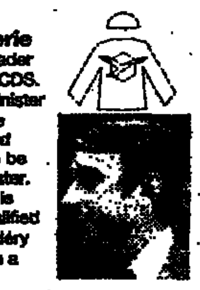
Charles Pasqua
Aged 65. RPR leader in the Senate. This former drinks salesman incarnates populist, hardline Gaullism and was a leader of the anti-Maastricht campaign in last year's referendum. Was interior minister (1986-88) and would like to be defence minister. Advocates creation of a reserve national guard if France moves away from conscription to a more professional army.

Valéry Giscard d'Estaing
Aged 67. Leader of the UDF. As an ex-president (1974-81) does not personally hanker after the prime ministership. But will bargain hard for maximum UDF influence in new government. Is more enigmatic than Chirac about running for the presidency but will do so if he thinks he has a chance. Has a reciprocated dislike of Chirac.



Edmond Alphandéry
Aged 49. An economics professor turned UDF politician. Keen supporter of European monetary union and a strong franc as the best way to get there. Turned down Mitterrand's offer in December of one of France's two European commissionerships, partly to be available for the Finance Ministry. But may have too many of his own ideas about finance to suit Balladur.

Edouard Balladur
Aged 63. Former finance minister in the second Chirac government and the RPR's front-runner for prime minister. His political moderation, economic orthodoxy and pro-EC stance would make him the most acceptable RPR premier to the UDF. Has stated publicly he does not want to be president, so allaying fears of potential rivals that he might use premiership as a stepping stone.



Pierre Méhaignerie
Aged 53. Leader of the small CDS. Has been minister of agriculture (1977-81) and would like to be finance minister. Fact that he is less well qualified than Alphandéry would not be a handicap to Balladur, who wants to exert close influence on finance. Big role for CDS would help neutralise temptation for centrists to flirt with Socialist contenders – like Michel Rocard or Jacques Delors – in the 1995 presidential race.

Alain Juppé
Aged 47. RPR secretary-general. Very close to Chirac and one of his deputies as mayor of Paris. Would now like to get out from Chirac's shadow. Has been budget minister (1986-88) and could do another economics job. But fancies a higher profile this time as foreign minister at the Quai d'Orsay.

Alain Madelin
Aged 47. Senior UDF leader who negotiated, on his party's behalf, common programme with the RPR. But failed to persuade his party or the RPR leadership that the franc should be floated as the only way to control influence on France of Germany's high interest rates. A genuine free-market liberal (a rarity in French politics). Was industry minister (1986-88) but now seems resigned to a second-ranking ministry, perhaps labour or transport.

Foreign minister is early casualty

By Alice Rawsthorn

ONE of the earliest casualties of the Socialists' defeat last night was Mr Roland Dumas, the veteran foreign minister, who lost his seat at Sarlat in the Dordogne to Mr Jean-Jacques de Peretti, the local Gaullist mayor.

The loss of his constituency brings Mr Dumas, 70, to the end of a long political career in which he has been as influential in his personal role as a confidant of President François Mitterrand as in his professional ministerial posts.

Mr Dumas spent his early career in journalism but went into politics in the late 1950s. He served as minister of European affairs during the first Mitterrand government from 1981 to 1983, moving on to external relations until 1986 and becoming foreign minister when the Socialists returned to power in 1988.

The Foreign Ministry has traditionally been something of a poisoned chalice in French politics, given that the president is generally active in foreign affairs. Mr Mitterrand has been no exception. But Mr Dumas managed to carve out a role for himself, thanks partly to his close relationship with the president but also to his own expertise, particularly in oriental studies.

Mr Dumas has long been seen in France as a *bon viveur*. The press frequently refers to him (generally approvingly) as a *grand bourgeois*.

But the raffish side of his nature became a distinct disadvantage in the parliamentary campaign.

His bid for re-election has been dogged by a blaze of publicity over his friendship with Ms Nahed Ojjeh, daughter of Mr Mustapha Tlass, the Syrian defence minister, and by the revelation that her family paid for a new £1m scanner at a Sarlat hospital.

Mr Dumas does at least have the consolation that his links with Mr Mitterrand seem to be intact. When the president last week came under pressure from the Gaullists to resign, he turned to two trusty Socialists to communicate his views. One was Mr Pierre Bérégovoy, the prime minister, the other was his old chum, Mr Roland Dumas.

EC given food for thought over allocating plum jobs

National quotas or merit? David Gardner looks at how posts in Brussels are filled

THE EUROPEAN Court has just blown the gaff on the common practice at the European Commission of recruiting into its top echelons by national quotas, rather than on merit, as EC rules formally require.

The landmark ruling has been widely interpreted as a political blow to the Commission, but it has got some senior Brussels officials rubbing their hands with glee.

Far from damaging the Commission, the judgment has provided it with a weapon to resist member states that insist on slotting candidates they choose into plum Brussels jobs whether or not they are suitable.

The Luxembourg court has overruled appointment of an Italian and a Spaniard to senior posts in the fisheries directorate of the Commission, finding that they had been named to nail down slots previously held by compatriots. Two applicants with better credentials brought the complaint, and the Court found the appointments were made before the selection process had concluded.

The only shock in this was the sloppiness of the senior Spaniards and Italians in the Commission, and of Madrid and Rome, who had left lots of fingerprints of their premature decision-making.

Lobbying for senior Commission posts is the norm. There is no formal national quota system as in other international organisations such as the UN. Indeed, the EC rules state that "no posts shall be reserved for nationals of any specific member state".

But the rules also require all EC institutions to recruit "on the broadest possible geographical basis" to maintain a more or less even share-out between the 12.

These rules are "mutually contradictory," says a senior official who deals with personnel policy. "We do our best to navigate between them," welcoming the Court's decision as "a useful judgment" to help the Commission do so.

But another official who has served in several top political jobs in the Commission is more caustic. "We appoint the wrong people, to the wrong jobs, for the wrong reasons."

Political appointments are accepted and above board in the cabinets of the Commissioners, and at the two highest levels of the A-grade policy-making staff of the Commission. It is also acknowledged practice, though not licit under the rules, that control of the 23 Brussels directorates-general is partly shared out on an informal "national flag" basis.

France has had a lockhold on the agriculture directorate since the Common Agricultural Policy was set up 30 years ago; financial services and transport have been British stamping grounds; and Germany has had a long succession of director generals for competition policy.

In apportioning the rest of the DGs, a lot of log-rolling goes on to give member states roughly the right number and influence, in proportion to their size. Thus it was known in February 1991 that a Spaniard would take over the social policy directorate in October 1992 because Spain was one down on its quota, having made way for the UK at the transport DG. Belgium, by contrast, was temporarily one up on its quota; the key to the reshuffle was that there was a Belgian director general at social affairs who was due to retire.

But this sort of musical chairs has spread further down Commission ranks, spreading demoralisation along the way. One reason, made plain in a Commission working document on recruitment of last November, is that "geographical imbalances among applicants are persisting or getting worse".

The Commission chooses from a far smaller pool than national bureaucracies, and in the past five years there has been a sharp rise in applicants from Belgium and Italy and a steep fall in British and German candidates.

Among the large member states, the UK has always been under-represented: whereas France, Italy and Germany all have more than 600 A-grade functionaries, Britain has fewer than 500.

As a latecomer this is partly understandable, and it is also to be expected that a certain amount of manoeuvring goes on to try to redress this and other imbalances – particularly given what one official calls the "clientilist" practices of such member states as Greece and Italy.

The underlying problem is a hopeless imbalance in supply. Of the 93,691 applicants for the 3,459 A-grade posts advertised by competition in 1986-91, the Commission report shows, the UK fielded only 4,983, Denmark only 1,574, against 24,734 from host country Belgium, 18,529 from Italy and 10,333 from France.

The semi-detached Danes and British, though least interested in applying, have the best pass rates (5.8 and 3.7 per cent respectively, against, say, 2.8 and 1.6 per cent of successful applicants from Belgium and Italy). Nevertheless, by sheer weight of numbers, Belgium and Italy get between three and six times more people into the top of the Commission than Britain and Denmark.

Part of the reason is that Brussels goes after too many specialists, who face exams that a French-style elite school provides better preparation for than more generalist training common in such countries as the UK.

Officials say a more rounded approach is now being discussed: to recruit more generalists; give them a broader grounding by passing them through several departments before allocating fixed jobs; and relying more on temporary secondment from national administrations.

This last is partly to circumvent tight restrictions on hiring. The Commission is kept small, in relative terms, numbering 14,533 officials at the end of last year, or about the size of the UK agriculture ministry. The EC countries average 322 civil servants per 10,000 inhabitants, against only 0.8 per 10,000 for all EC institutions together.

Widening the recruitment pool, plus the precedent set by the Court, should help the Commission to resist nationalist lobbying, but officials warn that pressures for a carve-up will remain. "Yes, it will help to resist these pressures," says one senior official. "But to go from there to saying we're going to be recruiting entirely on merit is unrealistic."

Software institute plans to exploit Europe's expertise

By Alan Cane

A GROUP of leading computer companies and their customers are seeking to improve Europe's competitiveness by developing, through a new research institute, better ways to write computer software.

Establishment of the institute in Bilbao, Spain, will be announced today. It will focus on software processes and the rules and procedures for writing effective software.

The aim, according to Mr George Grunberg of France's Groupe Bull, acting chairman of the new institute's board, is to exploit Europe's software expertise: "Modern industrial society relies more and more on the availability and quality of software systems of ever-increasing size and complexity," he said.

Difficulties in specifying and writing large software programmes are recognised as a barrier to the greater use of computerisation in business and industry. While a number of blueprints or methodologies for software construction have been created, no universal method of guaranteeing effective software development has yet been found.

The members of the group include Bilbao Bizkaia Kutxa of Spain, British Aerospace, Sema Group, Logica and Lloyds Register of the UK, Groupe Bull and Cap Gemini Sogeti of France, Olivetti and Finsiel of Italy, and Siemens Nixdorf of Germany.

Each has subscribed Ecu100,000 (£82,600) to launch the project. Membership is open to any company with European operations interested in software development. New members would pay significantly less a year than the founders, Mr Grunberg said, but would have access to all the research and results.

A managing director is being sought for the institute, which is expected to begin work in the summer.

The institute, which will operate on a non-profit basis, has the blessing of the European Commission although it is wholly an industry-led initiative. It is expected to employ up to 50 software experts when fully staffed.

Bilbao was chosen after a number of European cities had expressed interest in hosting the institute. It has a well developed high-technology infrastructure and close links with US academic research in software development.

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PLO puts off peace talks decision

By Roger Matthews in Cairo and James Whittington in Damascus

THE Palestinians will delay a decision on whether to attend the next round of Middle East peace talks until April 8, Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, announced yesterday.

Mr Arafat told the Middle East News Agency in Cairo that he would be asking President Hosni Mubarak, the Egyptian leader, to explain the Palestinian position when he meets President Bill Clinton in Washington on April 6.

Mr Mubarak will visit Germany and Britain this week before heading off to the US. On Saturday he held talks in Cairo with President Hafez al-Assad of Syria in an effort to reach a joint Arab response to the American invitation to resume peace negotiations in Washington on April 20.

The foreign ministers of Syria, Jordan, Lebanon, Egypt and the PLO also met in Damascus yesterday to consider the US invitation. However Mr Arafat said the PLO executive committee wanted an opportunity to assess the result of current talks in Washington between members of the Palestinian peace talks delegation and administration officials before reaching a final decision.

The Palestinians have so far declined to accept the US invitation without an assurance from Israel that it will stop the mass deportations of people from the occupied territories.

The demand stemmed from Israel's deportation of 415 Palestinians on December 17, an action condemned by the UN Security Council.

Syria, Lebanon and Jordan are all keen to resume negotiations, but wish to find some compromise solution which will also allow the Palestinians to participate. Representatives from all the delegations are expected to meet again in the wake of Mr Mubarak's talks in Washington.

New man ascends a triple throne

Beijing is again engaged in delicate transition from one generation of leaders to the next, writes Tony Walker

TRAVELLING west from the vast Tiananmen Square in the heart of Beijing along Chang An ("Heavenly Peace") boulevard, you pass on your right huge, studded vermilion gates flanked by a pair of heavy, stone imperial lions.

The masses do not dawdle outside these gates, since they would be waved away by smartly attired honour guards of the People's Liberation Army, who snap to attention as black limousines, their windows heavily tinted to hide the identities of the occupants, slide back and forth into the traffic, guided by police outriders.

This is the entrance to the ZhongNan Hai (Middle and South Lakes) compound of the Chinese leadership from where the destiny of one-fifth of mankind is guided and where momentous decisions have been taken that have literally rocked the world, including the order in June 1989 to the army to put down pro-democracy protests in Tiananmen square just a few hundred metres to the east.

These days, as winter turns to spring in the Chinese capital, things appear relatively calm, although beneath the surface, unease persists; not so much, one suspects, because of lingering animus about the events of June 4, but because China is once again engaged in a delicate transition from one generation of leaders to the next.

For the moment, hopes of a smooth transition have been vested in a leadership group that includes Mr Li Peng, the Premier, and Mr Jiang Zemin, the apparently affable Communist Party boss, Chairman of the Central Military Commission and now President, or head of state.

Not since Mao Zedong dominated state and party institutions in the 1950s has one man, apart from the briefly-anointed Hua Guofeng (there was no position of president when he served as premier and party boss in the 1970s and early 1980s) had the three roles of head of party, state and military.

Thus, the 67-year-old Mr Jiang at the weekend attained a trio of leadership positions that will nominally place him at the very pinnacle of authority in the world's most populous country. As he contemplates his bounty from the high-walled seclusion of the ZhongNan Hai compound, Mr Jiang probably cannot quite believe his good fortune.

Nor, it must be said, can many Chinese and foreign observers who are not persuaded that he is of the "right stuff" to guide his country further into uncharted waters: from a centrally-planned state under rigid communist party diktat to a modernising market-oriented economy under looser central control.

Indeed, the fact that he needs to accumulate, or have thrust upon him, responsibilities for the party, state and army is seen not as a sign of strength, but of weakness. Mr Deng Xiaoping, China's supreme leader who has probably exercised more power in post-revolution China than anyone except Mao himself, has never been premier, president or party boss: he has not needed titles to assert his authority.

Mr Jiang, who is being referred to in China's official propaganda as the "core" of the leadership, was not even a member of the Standing Committee of the Politburo, the normal springboard for even higher office, when he was hastily moved from Shanghai, where he was mayor, to Beijing in mid-1989, just weeks after the Tiananmen massacre. Among his qualifications for the job, apparently, was his lack of direct involvement in the decision to crack down on the protesters.

His official profile reveals that he was born in August, 1926 in Yanzhou City, Jiangsu Province in eastern China not far from Shanghai. The son of intellectuals (his communist father Jiang Shangqing is said to have died at the hands of the Kuomintang), Mr Jiang graduated as an engineer from Shanghai's Jiaotong University in 1947, a year after joining the communist party.

After the 1949 revolution, there followed a series of fairly humdrum jobs, including boss of a foodstuffs factory. One highlight was his posting to the Soviet Union in 1955 to work in the Stalin Automobile Factory in Moscow where he learned a smattering of Russian.

Chinese propaganda makes much of Mr Jiang's linguistic skills (he is also said to be able to speak English and Romanian) and his musical abilities. Thus Xinhua, China's news agency, in a recent profile, painted a picture of a cultured leader "capable of appreciating literature, arts, music and painting".

China's new president is married to his childhood sweetheart, Wang Yeping, the former head of a Shanghai engineering research institute. The couple have two sons. There is at least one grandchild.

While seeking to present Mr Jiang as an avuncular figure worthy of the love and respect of the masses, the Xinhua biography pointedly mentioned, as might be expected of the putative father of the nation, that he is "strict with his children".

Little is known of what fate might have befallen him during that defining moment for many of China's leaders, the Cultural Revolution of 1966-1976; but it seems that he weathered those storms fairly adequately. Mr Jiang, one suspects, has invariably managed to be politically correct, whatever winds might have been blowing at the time.

Premier Li Peng looks confident as he waits for the start of voting for senior Chinese government posts yesterday. He was reappointed for another five-year term, unopposed.

CHINA'S parliament appointed new state functionaries at the weekend to smooth the transition from old-guard revolutionaries to a younger, more technocratic leadership, Tony Walker writes from Beijing.

The appointment of Mr Jiang Zemin, 67, the general secretary of the Communist party and chairman of the Central Military Commission, to the additional post of state president is aimed at strengthening collective leadership in the post-Deng Xiaoping era.

Likewise, the reappointment of Mr Li Peng, 65, to a second five-year term is intended to solidify the leadership group in this transition phase.

Mr Deng, China's supreme leader, is 88 and has aged noticeably in the past year or so.

He has urged Chinese officials to speed economic reform, and has been engaged recently in promoting a younger generation of reformists to preserve his legacy, although doubts persist over the cautious Mr Li's commitment to change.

The leadership was clearly intent on sending a strong signal to the international community of its commitment to continue opening its economy with the appointment as vice-president of Mr Rong Yiren, the millionaire head of China International Trust and Investment Corporation.

Among other significant appointments was that of Mr Qiao Shi, a member of the Standing Committee of the Politburo, to the post of chairman of the Standing Committee of the National People's Congress, China's parliament.

Mr Qiao, 69, who is in charge of security matters, is likely to emerge as a key figure in the post-Deng era. His security responsibilities have tended to keep him in the shadows until now.

Kenya denies rift with donors

By Michael Holman

THE Kenyan government has dismissed claims of a rift with donors and denied allegations of malpractice in the country's banking sector.

"The government is continuing the dialogue with the IMF and World Bank and other donors, but on the basis of more rational and sustainable measures," Mr Musalia Mudavadi, the minister of finance, said in a statement at the weekend.

Donors and bankers had expressed deep concern over the government's decision last Monday to suspend or reverse key elements of its economic reform programme. President Daniel arap Moi had earlier accused the IMF and the Bank of forcing "dictatorial and suicidal" measures on the government.

Last week's decision was "intended to save the economy from collapse, it was not intended to result in a break with the Fund or the Bank," said the minister.

The minister denied allegations of fraud in connection with an export compensation scheme.

He also rejected reports that certain banks said to have political connections received favoured treatment.

"It is true that a few banks have run overdrafts with the central bank due to liquidity problems resulting from financial liberalisation, adverse publicity and other underlying problems," said the minister.

But he stressed that the banks were not insolvent, and had "substantial fixed assets which are in the process of being liquidated to generate liquidity". To deny them overdrafts would have caused "upheavals" in the financial system and "untold suffering to innocent depositors", he explained.

"The running of overdrafts was considered the lesser evil," he added, "especially considering that the banks involved were being restructured to eliminate the need for overdrafts."

Pollution rights go to auction

Laurie Morse in Chicago on a new move to curb SO_2 emissions

THE US Environmental Protection Agency today announces the results of its first public auction of pollution rights, a benchmark in its novel market-based strategy to reduce acid rain.

The agency has doled out emissions permits to 110 of the largest sulphur dioxide (SO_2) polluters, most of them coal-burning electric utilities, and will allow the companies to trade any permits, or "allowances", they hold in excess of their own requirements to meet pollution standards.

A utility that has, for example, reduced its harmful emissions by installing smokestack "scrubbers", or has switched to low-sulphur coal or natural gas, might recover costs by selling excess SO_2 allowances.

The 1990 Clean Air Act requires US electric utilities to halve their emissions of sulphur dioxide, the harmful element in acid rain, by the year 2000. The EPA plans to phase in its tougher standards, and the pollution allowance programme, in two phases. The first phase will involve an annual issue of permits from 1995 to 1999.

The second phase, starting in 2000, will require all SO_2 polluters, not just the dirtiest utilities, to meet compliance standards, and SO_2 allowances will be limited to 8.9m tons annually, well below the 20m tons currently generated each year in the US.

The programme has been endorsed by both political parties and by environmental groups such as the Environmental Defence Fund, because it provides a cost-effective alternative to "command and control" regulation. Its proponents, including Vice-President Al Gore, believe the SO_2 experiment will lead to other market-based ways to control environmental disruption.

Only a small percentage of allocated emissions allowances will be priced and traded at this month's auction, which is being conducted by the Chicago Board of Trade. The CBoT won the right to administer the auction in a three-way bidding war with the New York Mercantile Exchange and the New York-based financial broker-dealer Cantor Fitzgerald.

All three hope to develop lucrative markets in environmental rights, though regulatory hurdles have so far limited trading in the SO_2 allowances. Cantor Fitzgerald has set up a special division, Environmental Brokerage Services, to create screen-traded forward markets for pollution rights. The SO_2 allowances will be its first product.

"We see a great opportunity here," says Mr Carlton Bartels, director of the division. "There are two important trends emerging in this country. First, people are demanding a cleaner environment, and second, the government doesn't have any money to waste. There is great potential in market-based allocation systems."

The CBoT hopes to develop an electronic spot market in pollution allowances, and later, a futures market. The Nymex, which expects to launch electricity futures some time next year, believes its energy-market constituency will give it a way into the pollution market.

Despite the enthusiasm, utilities are wary of the market and trading has been spotty. Most are nervous about how their main overseers, state public utility commissions, will treat a pollution trade. The state agencies so far have not formulated policies on how SO_2 allowances will be accounted for, and if cost savings or profits would pass to shareholders or utility customers.

The utilities are also sensitive to environmental activists. When Long Island Lighting (Lilco), a New York utility whose emissions generally blow out to sea, sold its SO_2 allowances to Amax Energy, a coal producer which intends to market the permits with its high-sulphur coal to midwestern utilities, New York State and an Adirondack mountains environmental group cried foul.

They fear acid rain in New York will worsen under the programme, because it could allow tall midwestern smokestacks upwind to increase SO_2 emissions. Their objections are not expected to block the programme. However, the case generated unwelcome publicity for Lilco.

Utilities participating in EPA's auction this week can sidestep that problem by remaining anonymous and using CBoT clearing firms to execute their bids. EPA has set aside 50,000 phase one permits, and 100,000 phase two permits to sell at the auction. These will be sold to the highest bidder until all are allocated. Each permit represents one ton of sulphur dioxide emissions.

In addition, the CBoT has been commissioned by utility companies to sell 95,000 phase one and 30,000 phase two permits. Those permits will be subject to minimum prices.

The results will provide the first public price discovery for the programme. "Cash trades in allowances have been extremely rare because of the difficulting in establishing a market price for them," says Mr Kenneth Rosenzweig, a partner in the Chicago law firm of Schiff, Hardin and Waite who is advising clients on the emerging market.

Presumably, the permits will be priced below the cost of installing scrubbers, and well below the $2,000-a-ton fine the EPA plans to levy on polluters who do not comply with the programme's emissions standards.

Lend to private sector, bank told

A HIGH-LEVEL group established to advise the Inter-American Development Bank on how to strengthen the private sector in Latin America has recommended that the bank lend money directly to private concerns.

There are growing worries that without a shift in bank policy it might be impossible to obtain finance for infrastructure projects, which many Latin governments – after a wave of privatisation – are now relying on the private sector to build. The World Bank and the IADB are both forbidden from lending without government guarantee.

The group's report, put before the IADB board of governors at the weekend, recommended 5-10 per cent of the bank's lending could be directed to helping finance private infrastructure, without government guarantees. Limited sums might also be lent to private-sector intermediaries financing small businesses.

The Bush administration in the US last year said the bank should consider lending to the private sector, and the idea is favoured by Chile, Argentina and now Mexico, which previously opposed it. However, European government shareholders were lukewarm.

The group's report also recommended radical restructuring of the InterAmerican Investment Corporation, the offshoot of the bank which lends to and makes equity investment in private projects. The corporation has been given "a mission impossible" and its current structure was "no longer viable". However, it should continue as a separate entity, the report said. The Bush administration suggested the IIC should be merged with the bank.

● Ecuador's finance minister, Mr Mario Ribadeneira, met the country's main bank creditors, led by Lloyds of Britain, in negotiations over a debt relief package. Negotiations are expected today over Brazil's debt restructuring and tomorrow over Poland's.

Stephen Fidler reports from the IADB meeting in Hamburg

Interest rate rise may be threat to Latin America

A MOVE to higher interest rates in industrialised countries could have destabilising effects on Latin American economies, the InterAmerican Development Bank says today.

The risk arises because of the region's significant reliance on capital inflows drawn by higher interest rates.

"The possibility for a reduction of external capital inflows in the near and medium term, brought on by the possibility of higher interest rates in industrialised countries, could have a destabilising effect on the economies of the region," the bank says in its annual report.

The prospects for further growth in the region are otherwise encouraging. Nonetheless, economic growth in Latin America slowed from 3.2 per cent in 1991 to 2.6 per cent in 1992, with the 1 per cent fall in Brazilian gross domestic product last year accounting for much of the slowdown.

However, deteriorating trade pushed up the region's current account deficit to $26.5bn (£18.6bn) last year from $17bn in 1991. "While a current account deficit of this magnitude is probably not sustainable over the long term, it is mainly the product of the region's economic recovery and increased capital inflows."

Foreign exchange reserves rose to cover six months of imports, with net transfers of funds into the region, which were negative from 1982 to 1990, rising from a positive $8bn in 1991 to $27bn last year.

The report emphasised the need for social reforms: "Economic and social reforms are mutually reinforcing, ensuring each other's sustainability."

World machine tool production down 19% as recession bites

By Andrew Baxter

WORLDWIDE production of machine tools fell 19 per cent last year to $34.6bn (£24bn), underlining the severity of the recession in virtually all the main markets for the metalworking machines on which manufacturing industry depends.

Consumption fell 20 per cent from $39.4bn to $31.4bn in the 34 countries covered by American Machinist in its annual survey of the industry. The declines are the worst in the 30 years since the US magazine started its surveys.

The declines are led by a staggering fall of 31.8 per cent in Japanese consumption (36 per cent if measured in yen), while production has fallen from $11.6bn to $8.7bn.

Domestic demand has fallen because of excess capacity in the car and other customer industries.

Japan retains its position as top producer and user of machine tools, but Germany has closed the gap in second place. Even so, German consumption fell 16.8 per cent in dollar terms and is still falling this year.

The fallout from reunification, combined with high interest rates caused by heavy capital transfers to Germany's eastern states, is discouraging investment in machine tools in western Germany.

In the US, the world's third largest producing and consuming market, consumption fell 10.7 per cent but production was down only marginally from $3.27bn to $3.19bn.

Several machine tool builders have said recently that the US market is picking up steam, and domestic orders rose 2 per cent last year.

The few bright spots in the survey come from Asia.

China reported an increase of 20 per cent in production – from $1.44bn to $1.74bn – which took it from 10th to fifth place, while consumption rose 27 per cent to $2.31bn.

The rises, says the magazine, seem to be the result of growth of a market economy in the southern provinces close to Hong Kong. However, it notes Chinese production figures are reported in renminbi, the internal currency and therefore may be inflated in dollar terms.

In Taiwan, domestic consumption rose 17.6 per cent to $759.8m. But total production fell for the first time in living memory, albeit very marginally, from $992.2m to $963.7m.

In contrast, both production and domestic consumption fell sharply last year in South Korea, where the machine tool market is in recession and producers' stocks have been rising.

Oil exporters study western energy taxes

OIL exporters are considering practical measures to counter US and European moves to impose energy taxes, including the possibility of an oil export tax, Gulf sources said yesterday. Reuter reports from Dubai.

Foreign ministers of the Gulf Co-operation Council (GCC) will consider the western taxes in a meeting on April 4. The taxes will also be high on the agenda of an April 13 meeting in Oman between Opec and non-Opec oil ministers, the sources said.

Analysts believe a co-ordinated response would be difficult to achieve and the GCC, composed of pro-western countries, does not want to trigger a trade war. "They are not in a position to take strong counter-measures that could escalate a trade war or confrontation with their major trading partners," said a Gulf Arab official source.

Argentina to sell state gas wells

THE Argentine government has decided to auction more gas wells belonging to the state-owned oil company YPF, before the company's privatisation this year.

Argentine officials said the sale was in response to concerns that the company, which holds up to 80 per cent of the country's gas reserves, would be able to exploit its virtual monopoly position in gas once it was privatised. The aim would be to reduce its share of gas reserves to 40 per cent.

YPF is the oldest state oil company in the world and its valuation after a radical restructuring – now almost complete – has been put by the government at $8bn (£5.6bn). Gas pipeline and distribution companies were privatised late last year.

The government has also set a schedule for the sale of the rest of YPF as a single entity. An initial public offering to international and domestic investors is scheduled for the third quarter of this year.

The officials said the government was also studying mechanisms to make sure control of the company was in private-sector hands after the offering, even though the government would remain the largest – though possibly a minority – shareholder. Possible options included converting the government's remaining shares into non-voting stock, and limiting its representation on the board.

Crédit Suisse First Boston and Merrill Lynch are likely to be given the mandate to handle the offering.

Yeltsin rides the Congress storms

By John Lloyd in Moscow

THE Russian Congress of People's Deputies usually refuses to run to a simple script. It is an inchoate body, made up of shifting factions and allegiances with many deputies lacking representative experience. But the key to the ebbs and flows of resolutions, decisions and stalemates of this past weekend was in the fact that the deputies lacked the necessary votes to impeach the president, Mr Boris Yeltsin.

This was despite the fact that after an appearance before the microphones which frightened his supporters and delighted his opponents because of its incoherence, he lost that sliver of support which had deprived his foes of the majority they needed to put the issue on the agenda. To the end, he seemed able to disappoint them of the two-thirds needed to impeach him.

Communist protesters size up police near Red Square in Moscow yesterday, amid tight security

The congress has registered great waves and troughs in the apparent strength of the opposing side. On Friday, the president kept firm to his insistence he hold a referendum of April 25 on trust. He felt strong enough to taunt the deputies to put the question of trust in themselves on the ballot paper. The voices from the floor were looking for compromise, following the defection from the impeachment camp of Mr Ruslan Khasbulatov, the parliamentary speaker.

Saturday morning marked the beginning of efforts to find a compromise. A resolution was put forward, allowing the referendum but adding three more questions to the president's original one. These were: approval for election of president, for election of the deputies and approval of the results of economic reform, which the president has consistently supported and which is assumed unpopular. The president's side let if be known this was unacceptable.

Though they had gathered in the expectation of discussing impeachment, the issue had not got on the agenda: a vote confirmed that the necessary simple majority to discuss it still did not exist. Nor was the resolution on a four-question referendum allowed. Later, a harder line resolution appeared, proposing to suspend the president's aides who had persuaded him to appeal to the people on March 20, cancel his special powers, and dismiss his appointed provincial governors.

Mr Victor Chernomyrdin, prime minister, gave heavily-qualified support for his president, in which he was careful to say that "without the president we will not be able to carry the heavy burden [of reforms]". But it was also a speech which suggested all sides were equally guilty for the crisis which had overtaken Russia.

It made the point that a decree issued by Mr Yeltsin early last week dismissing the chief administrators of Novosibirsk and Irkutsk had had to be revoked ; and that early elections were inevitable. The most cheered speaker was Mr Aman Tuleev, head of the Kemerovo region, who branded Mr Yeltsin's aides as a "collective Rasputin". But pro-Yeltsin deputies took the floor to defend economic reform and charge the Congress with unconstitutional behaviour.

Mr Yeltsin's appearance before the microphones most harmed him. With slurred diction and long pauses, he said there should be a week of talks between himself, Mr Khasbulatov and Mr Chernomyrdin to try to find consensus. Opponents said he was drunk; his supporters said he was overstrained; his staff that he was suffering from the effects of his mother's death last week, an explanation he later proffered himself in remarks to reporters.

Yesterday morning, another consensus appeared from behind the scenes. Said to have the support of the president, the speaker, the prime minister, the leaders of regions and republics and "several factions", this resolution scrapped the referendum in favour of November elections to a two-tier parliament (which meant the scrapping of the present Congress).

Mr Yeltsin said that were it to be supported, he would cancel his decree calling for a popular vote on April 25. There followed a dozen speakers, each of whom denounced the draft agreement: if any faction really had put their name to it overnight, none admitted it in the hall. It went down with a mere 134 votes in favour.

A feature of the rhetoric on this issue was an increase in the calls for the resignation of the Speaker. The proposal to vote on the impeachment of the president was finally put on the agenda, with 594 deputies voting for its inclusion. Slightly more deputies (614) voted to ballot on a no-confidence motion on Mr Khasbulatov. Mr Yeltsin's vote required two-thirds of the total, that is, 689 out of 1,033: Mr Khasbulatov's majority was a mere 517.

LDP godfather faces more tax evasion charges

By Robert Thomson in Tokyo

JAPANESE prosecutors have filed further tax evasion charges against Mr Shin Kanemaru, the fallen "godfather" of the ruling Liberal Democratic party, and are continuing investigations into allegedly illegal political donations by leading construction companies.

Having already been charged with evading Y119m ($983,400) in tax for 1987, Mr Kanemaru was charged at the weekend with having evaded Y920m in taxes for 1988 and 1989. His former secretary, Mr Masahisa Haibara, was charged with evading taxes totalling Y280m from 1988 to 1991.

Mr Kanemaru has been in custody since March 6, in contrast to his previously lenient treatment from prosecutors.

It remains unclear how tough the prosecutors will be in pursuing Japanese construction companies, but 18 leading contractors have been raided in the search for information about political donations. Mr Kanemaru is also not the only Japanese politician allegedly to have received generous funding from the construction industry, raising the prospect that other leading LDP officials will be spotlighted.

However, the prosecutors, who have leaked many of their findings to Japanese newspapers, may see the publicity as warning enough to the industry and to politicians.

Prosecutors are said to be investigating whether charges of bribery can be sustained against a list of politicians who allegedly received funds from contractors. Construction industry representatives deny they have been a party to bribery, but have conceded that the system of political donations should be made more transparent.

The Fair Trade Commission, the anti-monopoly body, is also under public pressure to ensure there is no bid-rigging for public works projects.

Tokyo's District Court is due to rule today on a petition for Mr Kanemaru's release from custody. If found guilty in a case which may take many years to settle, he will liable to pay Y2.14bn in penalties and back taxes.

G7's reluctant convert to Russia's cause

Robert Thomson on Japanese misgivings about aid

WHEN a mainstream Japanese magazine recently shouted "Yeltsin, Starve to Death!", the harsh headline reflected a frustration distilled during a century of unease between the two countries and made more potent by international demands that Tokyo assist the "unreliable Russians".

Through gritted teeth, Japan has invited Mr Yeltsin to the Tokyo summit of the Group of Seven nations, but there is a deep anguish that the country must be pleasant to Russia without the prospect of much in return. Also, there is annoyance that most G7 members are blind to the Japanese vision of history.

Other G7 countries may have haunting visions of the collapse of Russian democracy or of bloody civil war, but Japan dwells more on the past than the future. The preoccupation with settling old debts will colour the country's response in the coming months as the host-nation of the G7 summit in July, and play a sometimes difficult-to-perceive role in the international debate on Russia.

Given an uncompromised choice, Japan would not rush to provide assistance to Russia. But, wanting to avoid an embarrassing diplomatic isolation, the government has promised funds, and Mr Michio Watanabe, the blunt but revealing foreign minister, retreated from his assessment that "it is wrong to give top priority to economic assistance".

Japan has promised $2.8bn (£1.97bn), more than half of which is trade insurance; so far a third of the total has been disbursed. History aside, Japan has genuine misgivings about pouring funds into Russia when there is no guarantee that they will be used profitably. The government has also agreed to host a meeting of G7 foreign and finance ministers in mid-April, an event that will itself increase the pressure on Tokyo to give generously.

Having once described the Russian leader as "dishonest", Mr Watanabe is a good case study of the conflicting emotions working away inside Japanese officials. Policy on Russia is handled almost solely by the Foreign Ministry, in contrast to, say, China policy, which is influenced by vested economic interests and the personal interests of powerful politicians.

While officials in Tokyo admit that China suffered terribly at the hands of the invading Japanese army, they are adamant that Russia was an unprincipled aggressor at the end of the Pacific war. The obvious symbol of this continuing "injustice" is the disputed Kurile Islands group, known here as the Northern Territories, and occupied by Soviet troops at the end of the war.

Mr Michio Royama, professor of international politics at Sophia University, explained that "historically, we don't have a friendly feeling towards Russia," and that there is a "strong anti-Russian faction in the Foreign Ministry" which is distorting the Japanese reaction to the changes in that country.

"In the case of most countries, there are, you might say, 'pro' factions and 'anti' factions, as in the case of the US. This is not so with Russia," Professor Royama said. "There were a lot of frictions before World War Two, but people have forgotten what we did to Russia. Also, Russia has lost its power. It is not of value for Japan."

The rapid collapse of Russian power has exposed a long-hidden contempt in Tokyo, once intimidated by the Kremlin's claimed "moral authority" of communism and in awe of Soviet military prowess. Communism has lost that power to intimidate as an ideology, and Russia was revealed to be a decaying society.

Japan would prefer that other countries shared their suspicions. Professor Tadae Takubo of Kyorin University suggested that what Europeans see as a disaster, the dumping of Yeltsin, would serve Japan's interests: "The most desirable outcome in Russia for Japan is that Yeltsin is defeated before the summit; Europeans would then lose a reason for supporting Russia".

US defence decisions hinge on spending review

By George Graham in Washington

THE Clinton administration has postponed all big decisions on military force structure and defence equipment programmes until it has completed a "bottom-up review of defence needs and programmes".

Although the $263.4bn (£185bn) defence budget for the 1994 fiscal year, presented at the weekend, cuts two Army divisions, two Navy aircraft carriers and the equivalent of nearly three Air Force fighter wings, Mr Les Aspin, US defence secretary, said he had only been able to make amendments to the budget bequeathed him by the outgoing Bush administration.

"We are dealing with a 1994 budget, the bulk of which has been written by the previous administration. We are essentially able to add and subtract from that defence budget but not really shape it from the ground up," he said.

The budget projects defence spending dropping steadily to $246bn in 1997, before rising again to $253.9bn in 1998.

The budget resolves none of the outstanding questions over costly and controversial equipment programmes such as the C-17 transport aircraft, the V-22 Osprey tilt-rotor aircraft, or the Seawolf submarine.

Procurement costs will be cut by 17 per cent in real terms to $45.5bn, but this is largely because no new B-2 bombers will be bought, and only three DD5-51 destroyers, decisions already made under the Bush administration.

Congressional critics have complained that the Pentagon will not *be able to afford all its major programmes* within the framework of President Bill Clinton's promise to cut deeply into defence spending, but funding is essentially preserved for all large procurement programmes, pending the outcome of the review.

Indeed, Mr Aspin has written back into the budget 24 new F-16 fighters that the Air Force said it did not want, in order to keep the production line open until decisions have been made on future tactical aircraft for the Navy and the Air Force.

"This is a cautious budget on the weapons side. We are maintaining a lot of options," Mr Aspin said.

One weapons area where decisions have been made is the Strategic Defence Initiative, often known as Star Wars. While the new budget funds missile defence development at the same level of $3.8bn as last year, money is shifted to short-range tactical defence systems such as the Patriot, and away from defences against ballistic missiles.

The new administration has, nevertheless, made sharp cuts in personnel and force structure to meet its targets for spending cuts. Active forces will be cut by 108,000 to 1.62m, with reserves dropping 60,000 to 1.02m and the Pentagon's civilian workforce falling by 45,000 to 919,000.

Combined with a government-wide pay freeze, this will cut military personnel costs by 9 per cent in inflation-adjusted terms to $70.1bn in 1994.

Mr Aspin claimed that his predecessors, when faced with making budget savings, tended to make horizontal cuts, keeping the same number of divisions, carrier battle groups or tactical air wings, but reducing the number of men in each unit, with the aim of filling them out when war came.

"I am not sure it was the right *strategy in those* days, in retrospect, but it is certainly not the right strategy now when the force structure is really more than we need for the kinds of threats that we are facing now," Mr Aspin said.

Pending the outcome of his review, Mr Aspin's interim force structure will cut the Army from 14 to 12 active divisions. The Navy will fall from 443 ships to 413, dropping to 12 aircraft carriers with the decommissioning of the Saratoga and the Forrestal. The Air Force will drop from 16.1 active fighter wing equivalents to 13.3, with one-and-a-half wings eliminated in Europe and one in the US, as well as an additional wing from the air reserves.

At the same *time*, Mr Aspin promised to preserve budgets for training and operations to ensure that US forces remained at a high degree of readiness.

One new initiative is a specific $300m allocation for peacekeeping exercises, which the US has previously paid for out of its regular operations *accounts*.

Mr Aspin acknowledged, however, that the allocation was likely to be too small, noting that the US deployment in Somalia was expected to cost $700m.

Growth in world trade speeds up after 3 years

David Dodwell looks at Gatt's annual world trade report

WORLD trade growth accelerated in 1992 after three years of slowdown, according to figures published today by the General Agreement on Tariffs and Trade. The main stimulus came from North America and Asia.

Gatt forecasts in its annual world trade report that trade growth in 1993 will "at least equal" 1992, but warns that "much of the risk is on the downside". Noting that trade grew more slowly during the second half of 1992 as western Europe and Japan fell into recession, it said the acceleration needed to better 1992 "may be difficult to achieve".

The value of world trade grew by 5.5 per cent to $3,700bn (£2,605bn), compared with growth of 1.5 per cent in 1991. The volume rose by 4.5 per cent, reversing a period of steady slowing since 1988, when growth fell from more than 8 per cent to 3.5 per cent in 1991.

The US maintained its position as the world's leading exporter, lifting sales by 6 per cent to $447bn. Behind it, Germany boosted exports by 6.5 per cent to $425bn. Strongest gains came from China and Hong Kong, where exports rose by 18.2 per cent and 20 per cent respectively. Taken together, they would overtake the UK to be the fifth biggest exporter.

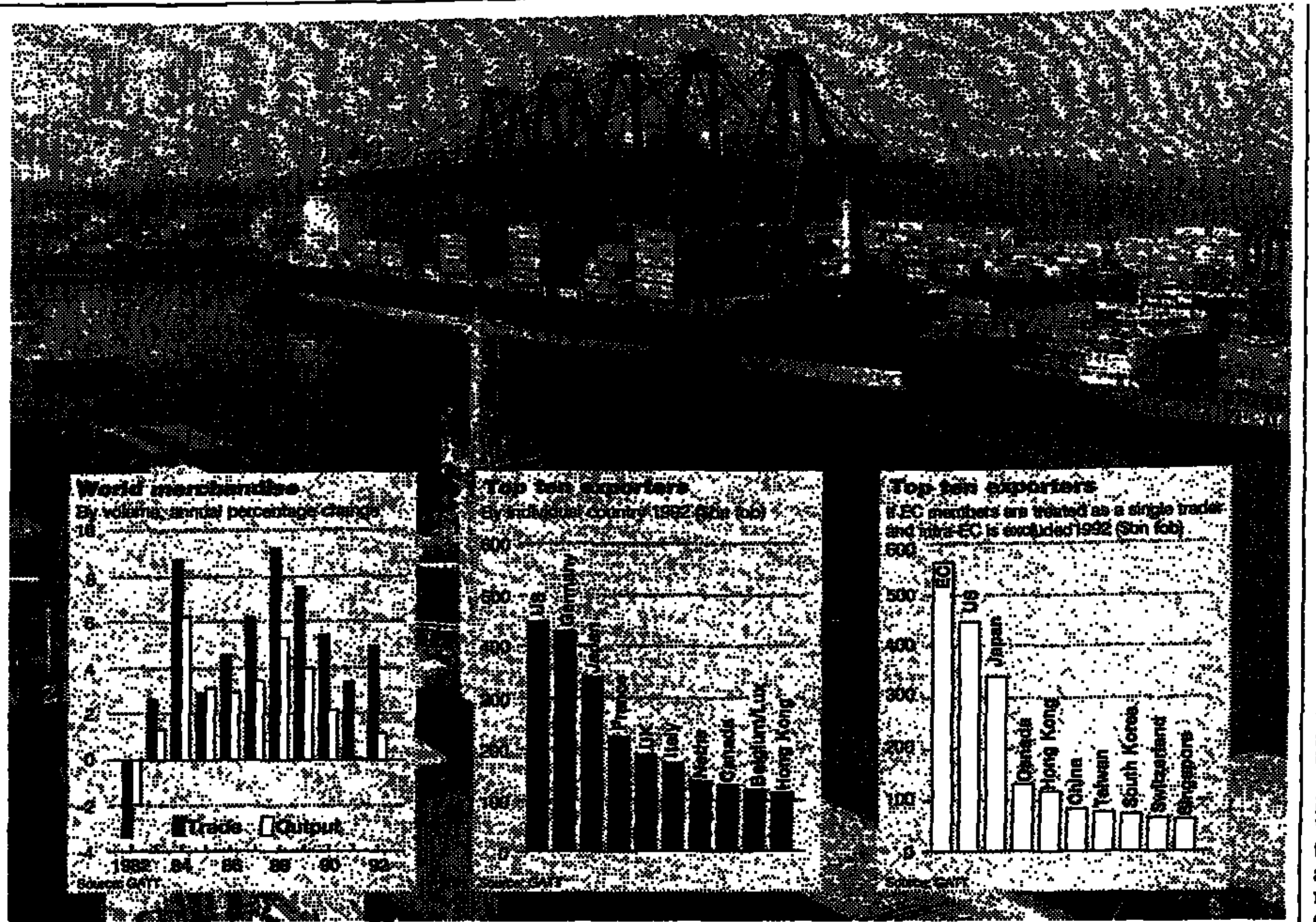
The US remained by far the leading importer, with a rise of 8.6 per cent to $552bn; Germany was a distant second with $408bn. A 1.8 per cent fall by Japan to $233bn resulted in France overtaking it as the third largest importer. It bought merchandise worth $240bn, up 3.4 per cent from $232bn in 1991.

The greatest jump in imports came in Latin America, up 18.5 per cent to $170bn. Mexico became the 17th biggest importer, with a rise of 23.5 per cent from $66bn to $82bn. Argentina, Chile and Venezuela also saw strong surges.

At a time when "trade has been a source of relative strength in an otherwise mostly weak economic environment", Gatt calls for markets to be kept open, and for fresh efforts to conclude the Uruguay Round of talks on trade liberalisation.

The report shows trade in services growing from $890bn to $960bn last year, a rise of 8 per cent.

At the same time, the economies of central and eastern Europe began to show the first signs of export recovery since their painful transitions to market economies. While exports slipped by 10 per cent to $85bn – an improvement from a 25 per cent slump in 1991 – sales to western Europe jumped by 20 per cent.



Kantor may drop dumping inquiry

By Nancy Dunne in Washington

MR Mickey Kantor, US Trade Representative, may withdraw a request by his Republican predecessor that the US International Trade Commission perform an in-depth study on *the impact of US dumping* and subsidy rulings.

Republican members of the House Ways and Means Committee, meanwhile, have prepared *for the possibility* that the request will be withdrawn, by pushing for Congressional action which would allow the non-partisan ITC to proceed with *the study. They have* asked for a preliminary report by January 1994.

In a letter to Mr Dan Rostenkowski, chairman of the House Ways and Means sub-committee, Congressmen Bill Archer and Phil Crane say the study is needed to evaluate proposed changes in US trade laws resulting from an end to the Uruguay Round. Generally, the requests of the minority are honoured as a Congressional courtesy.

The Washington trade community has been stirred up since it became public that Mrs Carla Hills, former US Trade Representative, had proposed the dumping study five days before her departure from office. Only the US Trade Representative, the Senate Finance Committee and the House Ways and Means committee can request ITC studies.

The "fair trade" regime is controversial; many Washington lawyers who defend foreign companies are convinced its procedures are intrinsically biased towards American companies and sometimes, politicised. *Those who generally* defend domestic companies see the laws as the only legitimate weapon against predatory imports. Mr Kantor sees the *fair* trade laws as a necessity.

Trade apostle: see feature

Russia falls from ranks of world's top 25 traders

THE countries of central and eastern Europe, excluding the former Soviet Union, expanded trade with the west last year for the first time since beginning their transition to market economies, Gatt said.

While ground-breaking market access agreements signed with the European Community in March last year were credited with part of the turnaround, Gatt noted that western European countries boosted their sales to the east *even more strongly*.

Meanwhile, Russia's trade continued to tumble. Exports to the west in 1992 amounted to just $27.6bn (£19.4bn) – *down 25 per cent from $36.8bn* in 1991. Imports fell similarly, from $25.6bn to $20.2bn.

This trade disruption pulled Russia out of the world's top 25 traders, despite its dominant position in the trade of the USSR which ranked in the top 20 exporters in 1991. "To put this in perspective, Russia exported less than Norway, and imported less than Portugal," Gatt said.

The value of exports from the region as a whole fell 10 per cent to $85bn (after a 25 per cent fall in 1991). But this was *entirely due to a 25 per cent* fall in exports from the Commonwealth of Independent States (CIS) to $35bn. In contrast, exports from the central *and eastern European states of* Bulgaria, Hungary, Poland, Romania and the Czech and Slovak Republics, when taken alone, rose by 10 per cent to $48bn. This was a rebound from a 14 per cent fall between 1990 and 1991 which swept exports down to $43.6bn.

Western Europe's trade grew strongly with the region. Purchases from central and eastern Europe rose by 20 per cent between 1991 and 1992. Exports from the Czech and Slovak republics leapt 63 per cent from $6bn to $9.8bn, while *exports from Romania jumped* 43 per cent to $2.8bn.

Main gains came in food products, steel and clothing, all products which are quota limited *by last year's "Europe* agreements".

Single market makes EC top exporter

THE completion of Europe's single market in January this year has had a radical impact on world trade, at least from a statistical point of view.

Not only does the European Community leap to first place as the world's leading exporter – far outstripping the US, with exports of $565bn (£397.8bn) – but world trade falls from $3,700bn to $2,800bn, as sales between EC member states become domestic trade.

The disappearance of EC exporters such as Germany and France from the rankings of top traders also brings five Asian countries into the top 10 for the first time: Hong Kong is fifth followed by China, Taiwan and Korea. Singapore is at number 10.

Top trading nations suffer current account imbalances

THE CURRENT account imbalances of four of the world's five leading trading powers widened in 1992, Gatt said.

When trade in both goods and services is taken into account, France was alone among the top five traders in moving into virtual balance on its current account.

Japan's current account surplus widened from $73bn to a record $118bn (£79.1bn) as recession cut imports.

In contrast, the US current account deficit leaped from a negligible $4bn in 1991 to $62bn as economic recovery sucked in imports.

Germany's current account deficit rose from $20bn to $25bn in spite of slowing import growth, as recession began to bite in the second half of 1992. This was because of a higher deficit in trade in commercial services, and a falling surplus on investment income.

In the UK, beginnings of economic recovery saw a strong import surge boosting the current account deficit from $11.4bn in 1991 to $21bn last year.

Criticising the "popular press", and implicitly the US administration, for focusing political attention on widening merchandise trade gaps, Gatt said "this is clearly inappropriate because trade in services is an important and growing part of countries' trade."

Despite the numerical widening of imbalances, Gatt noted that growth in these economies through the 1980s had meant that the current account deficits were smaller relative to GDP "than in most other years since the early 1980s".

Even in Japan, the surplus was lower last year in relation to the size of its economy than between 1985 and 1987.

Germany and the UK show the most worrisome trends, the UK slipping from a position in 1982 where it had the highest current account surplus of all five traders in terms of GDP to a position last year where it had the highest deficit, at 2 per cent of GDP.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

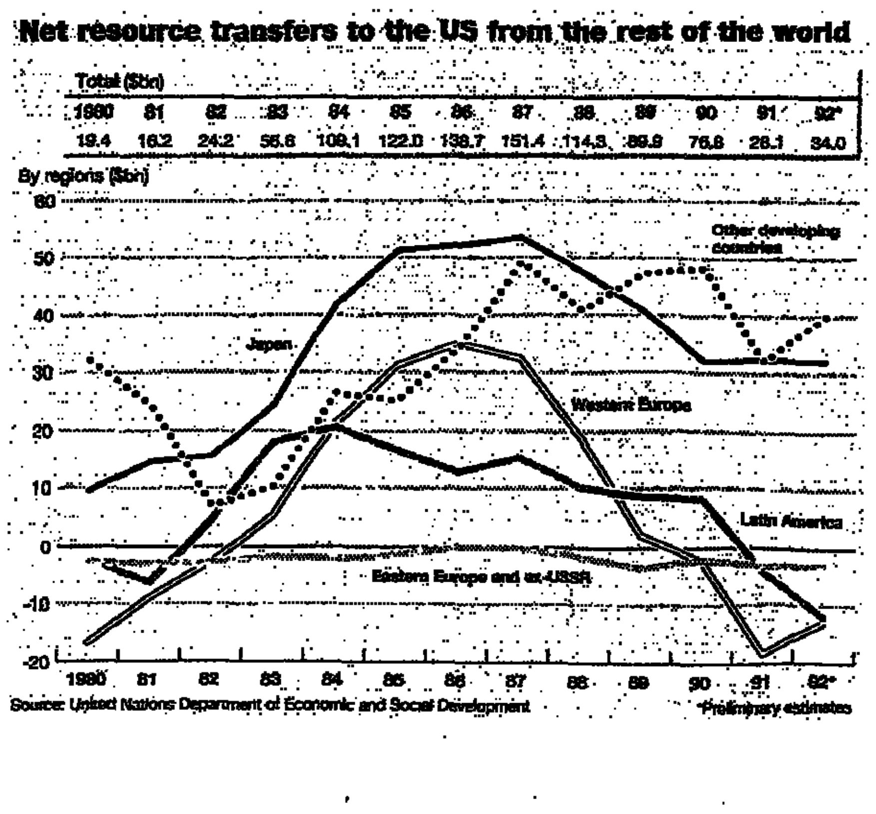
Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

	UNITED STATES					JAPAN					GERMANY				
	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	−174.2	−159.7	0.7623	100.0	230.8	76.0	64.5	180.50	100.0	242.8	33.4	21.7	2.2260	100.0
1986	230.9	−140.6	−150.0	0.9836	80.2	211.1	96.2	86.9	165.11	124.4	248.6	53.4	40.3	2.1279	108.8
1987	220.2	−131.8	−141.6	1.1541	70.3	197.3	86.1	75.5	166.58	133.2	254.3	56.8	39.8	2.0710	115.3
1988	272.5	−100.2	−107.0	1.1833	66.0	219.8	80.7	66.6	151.51	147.3	272.6	61.6	42.9	2.0739	114.6
1989	330.2	−99.3	−91.8	1.1017	69.4	245.3	70.5	52.4	151.87	141.9	310.2	65.3	52.2	2.0681	113.5
1990	309.0	−79.3	−70.9	1.2745	65.1	220.0	50.1	28.3	183.94	126.0	323.9	51.8	37.0	2.0537	119.1
1991	340.9	−52.3	−3.0	1.2391	64.5	247.5	83.2	63.0	166.44	137.0	327.4	11.2	−16.1	2.0480	117.7
1992	346.5	−63.9	−48.2	1.2957	62.9	254.8	102.0	89.8	164.05	142.9	330.3	16.5	−19.4	2.0187	121.2
1st qtr.1992	87.3	−12.0	−5.0	1.2623	63.5	65.0	26.1	22.7	162.21	142.2	83.2	3.1	−4.3	2.0432	118.8
2nd qtr.1992	86.7	−16.6	−14.4	1.2717	63.6	63.1	25.4	22.6	165.60	139.9	81.1	3.6	−4.8	2.0511	118.7
3rd qtr.1992	80.6	−18.2	−11.4	1.3831	60.1	61.4	23.7	19.8	172.79	136.6	83.9	6.4	−6.6	2.0221	122.1
4th qtr.1992	92.4	−17.0	−17.4	1.2658	64.2	65.5	27.0	24.9	155.57	149.7	82.1	3.4	−3.7	1.9593	125.0
March 1992	30.1	−4.6	n.a.	1.2309	65.1	21.9	8.7	9.6	163.61	139.6	28.2	1.7	−0.2	2.0456	118.4
April	29.3	−5.7	n.a.	1.2436	64.8	21.0	7.6	7.5	165.92	138.2	29.5	2.4	−0.9	2.0483	118.6
May	28.2	−5.7	n.a.	1.2676	63.8	20.9	9.3	8.6	165.57	139.7	26.5	0.6	−1.9	2.0551	118.4
June	29.3	−5.2	n.a.	1.3039	62.3	21.2	8.5	6.5	165.32	141.7	25.1	0.6	−1.9	2.0498	119.1
July	27.6	−5.4	n.a.	1.3693	60.5	20.4	6.2	6.9	172.22	139.2	28.3	1.0	−3.8	2.0410	120.7
August	25.5	−6.5	n.a.	1.4014	59.8	19.7	7.3	5.7	177.11	137.0	27.7	3.1	−0.9	2.0326	122.0
September	27.5	−6.3	n.a.	1.3786	60.2	21.2	8.3	7.2	169.05	142.5	27.8	2.3	−1.8	1.9927	123.6
October	29.6	−5.5	n.a.	1.3210	62.1	21.6	8.2	7.9	159.93	148.2	28.6	2.4	−0.8	1.9564	125.7
November	30.8	−5.9	n.a.	1.2372	65.1	22.2	9.1	9.4	153.22	150.3	26.8	0.9	−0.3	1.9634	124.0
December	32.0	−5.6	n.a.	1.2391	65.3	21.7	8.7	7.6	153.57	150.7	26.7	0.1	−2.5	1.9581	125.3
January 1993	30.9	−6.1	n.a.	1.1968	66.4	23.3	8.9	7.4	149.62	151.3				1.9327	125.3
February				1.1767	66.7				142.00	159.2				1.9318	125.8

	FRANCE					ITALY					UNITED KINGDOM				
	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	133.4	−3.6	−0.2	6.7942	100.0	103.7	−16.0	−5.4	1443.0	100.0	132.4	−5.7	4.7	0.5890	100.0
1986	127.1	0.0	3.0	6.7946	102.8	99.4	−2.5	−1.4	1461.6	101.4	108.3	−14.2	0.1	0.6708	91.6
1987	128.3	−4.6	−3.6	6.9265	103.0	100.7	−7.5	−2.1	1494.3	101.2	112.3	−16.4	−6.4	0.7047	90.1
1988	141.9	−3.9	−3.4	7.0354	100.8	108.3	−8.9	−8.0	1536.8	97.8	120.9	−32.3	−24.3	0.6643	95.5
1989	162.9	−6.3	−3.6	7.0169	99.8	127.8	−11.3	−14.0	1509.2	98.6	137.0	−36.7	−32.3	0.6728	92.6
1990	170.1	−7.2	−7.2	6.9202	104.8	133.6	−9.3	−19.4	1523.2	100.6	142.3	−26.3	−23.8	0.7150	91.3
1991	175.4	−4.2	−4.7	6.9643	102.7	137.0	−10.5	−28.0	1531.3	98.9	147.7	−14.7	−9.0	0.7002	91.7
1992	182.2	4.3	2.1	6.8420	106.0	137.9	−8.0		1591.5	95.7	145.1	−18.7	−16.1	0.7359	88.4
1st qtr.1992	45.4	0.9	−1.1	6.9492	103.4	34.3	−5.1	−7.6	1535.7	99.0	36.7	−4.3	−4.0	0.7126	90.6
2nd qtr.1992	46.2	1.5	0.9	6.9122	104.4	35.8	−3.6	−11.1	1546.3	98.5	38.0	−4.5	−4.4	0.7034	92.3
3rd qtr.1992	45.2	0.9	0.0	6.8536	106.6	32.9	0.5	−8.2	1564.6	98.2	36.4	−4.5	−3.0	0.7261	90.9
4th qtr.1992	45.3	1.0	2.3	6.6529	109.3	34.9	0.0		1719.4	87.1	34.3	−5.4	−4.6	0.8015	79.8
1992 March	15.5	0.23	−0.86	6.9429	103.4	12.1	−1.6	−2.2	1536.7	98.8	12.5	−1.2	−1.16	0.7141	90.1
April	15.8	1.10	0.08	6.9274	103.9	11.7	−1.2	−3.9	1542.0	98.6	12.4	−1.9	−1.90	0.7076	91.4
May	15.0	0.59	1.38	6.9090	104.5	11.5	−1.9	−3.4	1546.6	98.5	13.0	−1.2	−1.17	0.7000	92.8
June	15.4	−0.16	−0.54	6.9001	104.9	12.7	−0.5	−3.6	1550.3	98.5	12.5	−1.3	−1.30	0.7027	92.9
July	15.5	0.67	−0.16	6.8872	106.0	13.9	0.8	−4.4	1546.2	99.5	12.3	−1.6	−1.06	0.7137	92.5
August	14.2	−0.45	0.25	6.8944	106.3	7.7	1.1	−2.4	1543.4	100.1	12.3	−1.6	−1.09	0.7219	92.0
September	15.6	0.49	−0.04	6.7792	107.6	11.3	−1.4	−1.4	1604.1	95.0	11.8	−1.3	−0.85	0.7428	88.2
October	15.1	0.11	0.99	6.6368	110.0	12.4	0.1		1723.8	87.3	11.5	−1.4	−1.19	0.7969	80.8
November	15.1	0.05	0.13	6.6426	109.0	10.8	−1.2		1687.0	88.7	11.4	−1.7	−1.50	0.8100	78.3
December	15.1	0.81	1.14	6.6793	108.9	11.6	1.1		1747.5	85.6	11.5	−2.2	−1.93	0.7976	80.0
1993 January				6.5539	109.7				1784.9	82.5				0.7809	80.6
February				6.5442	110.3				1822.3	80.8				0.8179	76.6

All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Net resource transfers to the US from the rest of the world



Source: United Nations Department of Economic and Social Development *Preliminary estimates

US lectures on economic co-operation ring hollow

US President Bill Clinton, nearly two thirds of the way through the first hundred days of his administration, has good reason to feel pleased. The budget package is making good progress through Congress, relations with the Federal Reserve appear cordial, long-term interest rates have fallen and the US economy is conveniently accelerating. In short, the domestic *economic agenda looks under control*.

His only disappointment is the tardy pace at which the rest of the world is falling into line. Russian president Boris Yeltsin can hardly be blamed for his current plight, and the US, like the rest of the world, has little option but to mouth support and wait with crossed fingers. But other countries that do control their domestic policy agendas, notably Germany and Japan, appear less willing to follow the world leader's example.

Undeterred, the Clinton administration has quickly adopted the standard US presidential practice of lecturing other countries on how to manage their affairs, with the US Treasury taking the lead on the lecture circuit. Germany, the G7 finance ministers were told, should cut its interest rates more rapidly in order to kick-start European demand (for US exports). Japan, senior Treasury officials publicly imply, should be using fiscal policy in a more aggressively expansionary way to stimulate Japanese demand (for US exports). Would-be recipients of aid and debt relief *should liberalise their economies and open* their markets (to US exports).

Yet, while it is easy to see why the world's only superpower speaks its mind, it is less obvious that it has the moral right to do so. While lecturing other countries about their responsibilities, the world's richest nation continues to benefit from a huge net resource flow from the developed and developing world alike. At its peak in 1987, the net resource transfer to the US was $151.4bn (£106.6bn), of which over $70bn came from developing countries, equivalent to 2 per cent of developing country GDP. The cumulative flow since 1980 is a little over $980bn.

The US might bridle at these statistics. The net resource flow (equivalent to the US current account deficit minus net interest, profits and dividends) is, after all, the product of millions of individual, private and voluntary decisions. Yet the US, by virtue of its size and economic power, can alter the incentives that private individuals face. Hence, the rise of the US fiscal deficit in the 1980s was, in part, *responsible for the rise in world interest* rates and the flood of capital into the US.

This sharp rise in real interest rates encouraged US commercial banks to liquidate their third world lending to take advantage of the higher domestic returns, thus bringing on the debt crisis. Not that the US can take all the blame. While profligate US fiscal policy sucked resources in, mistaken domestic policies in many developing countries also drove resources towards the US. This was particularly true of Latin America and Africa for whom the stock of flight capital is estimated at a *third to two thirds of annual GDP*.

For all its good intentions, the Clinton administration will continue to suck scarce resources towards the world's richest country. Its budget plans envisage a budget deficit of over 3 per cent of GDP by 1998 while the combination of a nascent recovery and persistently low US national savings will expand the current account deficit over the next year.

It is the regional profile of America's capital donors, not the *demand placed on* them, that appears to be altering. Budget deficit-burdened Europe is now importing capital from the US, while eastern Europe is drawing on US savings. Meanwhile, economic *reform* and debt relief in Latin America has made the region a magnet for portfolio investment, capturing almost all of the 135 per cent ($4.7bn) increase in annual equity flows to developing counties over the past three years. This leaves an extraordinary alliance of Japan, east Asia and debt-burdened Africa to finance the world's largest, and least progressive, economic assistance programme.

Edward Balls

Heseltine fails to win over Tory rebels ■ Power generators start to sign new contracts worth £5.5bn

Government faces fresh split over coal

By Ralph Atkins and Michael Smith

THE BRITISH government is facing the threat of an internal split over the coal industry after ministers failed at the weekend to calm fears that 12 mines granted an apparent reprieve last week could still face closure.

Reluctant to admit that the ruling Conservative party was still struggling to win support for its policy on the future of UK-mined coal, Mr Michael Heseltine, trade and industry secretary, said "dramatic opportunities" had been given to the industry via government subsidies worth at least £300m to £400m.

A hint from British Coal executives that further pit closures were inevitable around April next year was, "one hypothetical doom-laden scenario," Mr Heseltine argued on BBC television. But he admited he could not "sign up in blood" to pits remaining open.

In parliament, government business managers are braced for at least two Conservative MPs to vote against the government and for another six or more to abstain. A trade union lobby of Parliament will increase the pressure on wavering Tories but the government was last night confident of winning the vote.

Defeat would require 11 Tories to vote against the government, assuming that all other political parties were opposed to the package.

The electricity and coal industries yesterday cleared the way for negotiations aimed at saving threatened pits when they started signing contracts worth £5.5bn over five years to British Coal.

The deals, concluded just three days before existing three-year contracts expire and after nearly a year of intense negotiations, will secure a long term future for the 19 pits which British Coal regards as its best. The future, however, of another 19 pits which will stay open or be mothballed following last week's policy document will be determined by talks in the next few weeks between British Coal and the generators.

In a move deliberately timed to help the vote, Mr Peter Lilley, social security secretary, will today announce extra help for former miners suffering from chronic bronchitis and emphysema, implementing recommendations last November by the Industrial Injuries Advisory Committee.

Industry Disablement benefit will be available to those sufferers who have worked more than 20 years underground. The department is expect about 80,000 applications.

Possible Tory coal rebels are to meet this morning to discuss tactics. The most vociferous yesterday, Mr Winston Churchill, said he was "looking for very specific assurances by the chairman of British Coal" about the future of the 12 reprieved pits. Without them, "the government would need to be very worried about its majority," he said.

Mrs Elizabeth Peacock, another Tory MP, said measures in last week's coal policy document did not meet her concerns over the "dash for gas," electricity imports from France, opencast mining, and orimulsion imports.

Mr William Cash, MP for Stafford, said the debate on the industry had been rushed. "No doubt part of the reason is so that people could not focus on it properly."

However, two possible rebels – Mr David Nicholson and Dr Michael Clark – yesterday said they would support the government.

Gas engineering companies 'could lose 30,000 jobs'

By Deborah Hargreaves

GAS ENGINEERING companies could see the loss of 30,000 jobs by the end of the year because of uncertainty hanging over the sector, a senior industry executive warned yesterday.

Mr John Cull, managing director of Amec Utilities, said more than 200 engineering and service companies which produce pipes, valves, meters and other infrastructure have shed more than 10,000 jobs between them since British Gas began cutting back on spending earlier this year.

British Gas has cut its £800m annual investment programme by 20 per cent because of uncertainty over an inquiry into its business by the Monopolies and Mergers Commission, said Mr Cull, who is also president of the Society of British Gas Industries.

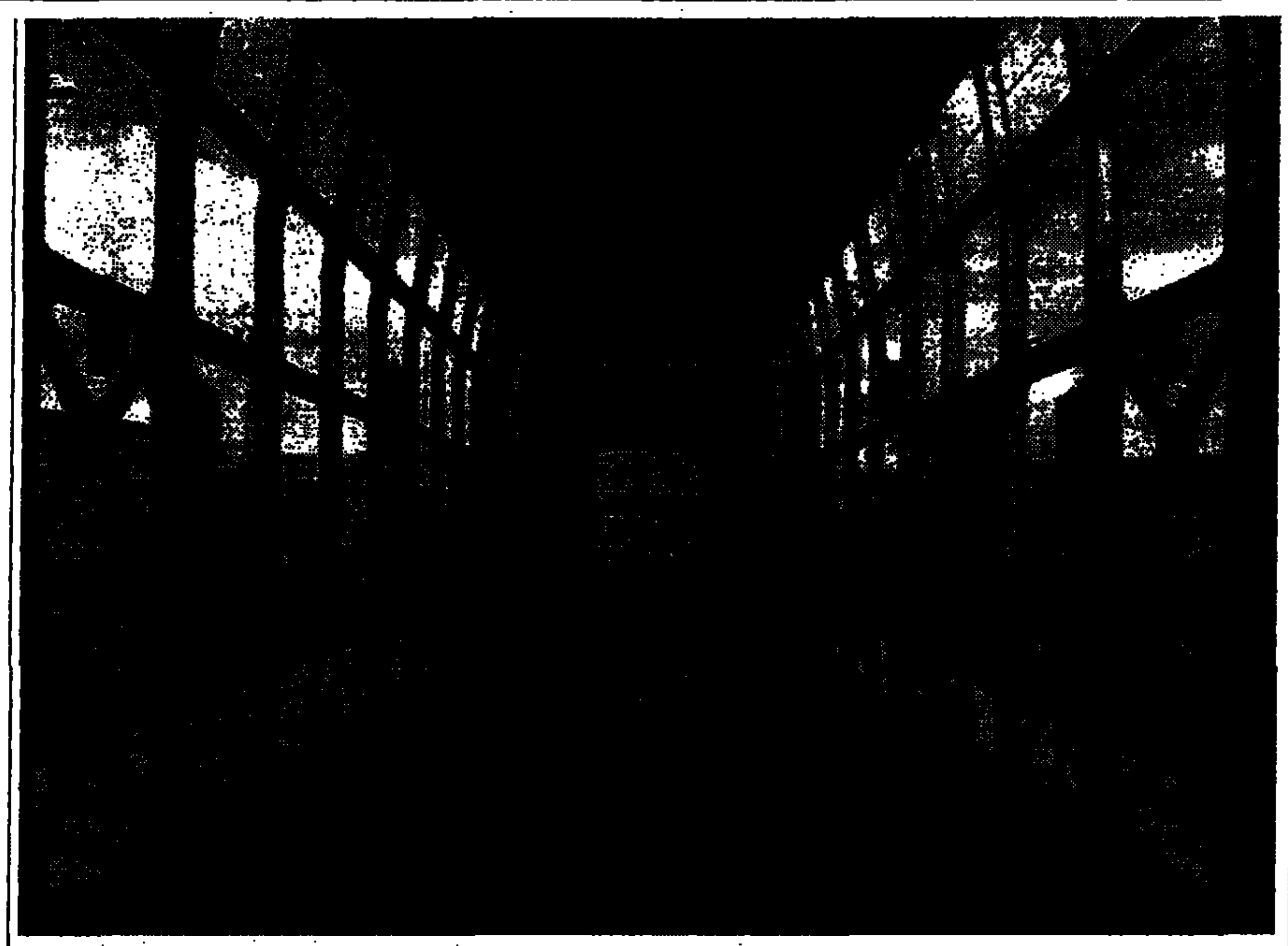
The society represents about 90 per cent of the engineering and service companies supplying British Gas.

The MMC inquiry should set a rate of return for British Gas's pipelines business and decide whether it should be sold off, Mr Cull said. Ofgas, the industry regulator, has proposed British Gas should earn a return of between 2 per cent and 4.5 per cent on its pipelines. But the company says this is too low to cover further infrastructure investment.

Mr Cull said manufacturing throughput among the society's members has declined by 60 per cent compared with the same time last year. He believes British Gas is running down its stocks of pipes and not ordering new ones.

"These companies are well-managed, but they're suffering because of the battle between British Gas and Ofgas," he added.

Mr Cull has met Mr Tim Eggar, the energy minister, to express his fears about the industry. But Mr Eggar said the matter remains in the hands of the Monopolies and Mergers Commission. The commission's report is due out by the end of April, but Mr Cull fears the government will not take decisive action until close to the end of the year. By that time, service companies which rely on British Gas will be facing severe difficulties.



THE FIRST freight wagons designed for the Anglo-French Channel tunnel have been delivered to Folkestone, site of the rail terminal at the UK entrance to the under-sea rail link. It is expected that 8.5m tonnes of freight will be carried during the first year of operation.

By the time freight operations begin in December there are expected to be more than 200 of the Italian-made shuttle wagons ready to carry road vehicles through the tunnel. Each shuttle will comprise 28 wagons; each wagon will carry one large truck with a gross weight of up to 44 tonnes.

Britain in brief

Supermarkets accused of profiteering

The opposition Labour party has asked the Office of Fair Trading for an investigation into alleged "profiteering" by UK supermarket chains.

Labour's consumer affairs spokesman, Mr Nigel Griffiths, has written to Sir Bryan Carsberg, the Director General of Fair Trading, claiming that statistics show supermarket profits have risen by 422 per cent in the past 10 years while producer prices have risen only 18 per cent.

Comparing UK margins with those in France, Mr Griffiths claimed Carrefour, France's largest supermarket group, increased its profits by 76 per cent over the same period. Gross margins for French supermarkets are around 18 per cent, compared with 23 per cent for UK market leaders, he added.

Concern at mail train robbery

British Transport Police fear a gang that robbed a mail train at one of London's main rail hubs may flood the black market with vehicle tax discs and postal orders worth hundreds of thousands of pounds.

Two postal workers were assaulted and other staff threatened at gun point during the Friday-night raid at Euston station, police said. Documents used as Post Office counter supplies were stolen. British Rail has offered a £10,000 reward for information leading to the arrest and conviction of the robbers.

Jobless growth set to slow

The rate of increase in UK unemployment will continue to fall, with the smallest increases over the next year expected in the north west, Scotland and Wales, according to an economist at one of Britain's clearing banks.

Mr David Kern, chief economist at National Westminster Bank, says that the number of UK jobless is expected to rise by a further 300,000 to 3.275m in March 1994. However, he says there is now evidence of a distinct slowdown in the rate of increase which will continue throughout the year.

Management pay rises 4.4%

Managers' basic pay rose by 4.4 per cent over the 12 months to February, according to a survey of more than 1,000 companies carried out by the pay research group, Reward.

The rate of pay increases for managers fell in the second part of the year - six months ago pay was rising at an annual rate of more than 5.5 per cent, the group found.

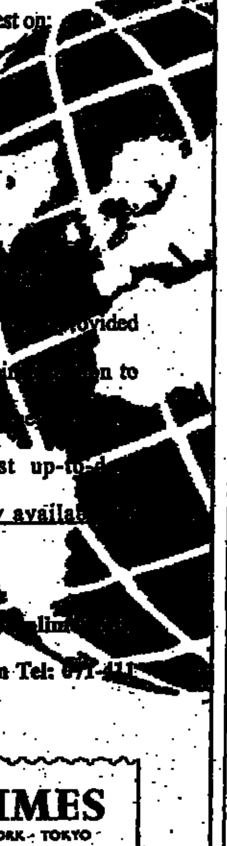
Competition urged for gas

The Monopolies and Mergers Commission is considering a strong call from British Gas's competitors for the liberalisation of the household gas supply market in its review of the industry. But this is countered by consumer groups and some North Sea oil producers which urge caution in changing the present situation.

In a Financial Times survey of evidence submitted to the commission – which is due to present its report to Mr Michael Heseltine, trade and industry secretary, on April 30 – all of British Gas's main competitors say they want to enter household sales.

Restrictions on tribunals

Industrial tribunals are to be given the power to restrict press reporting of sexual harassment cases, following a late government amendment to the employment bill. The amendment, due to be proposed today, is certain to be accepted. It will prevent either alleged victims or alleged harassers from being identified while a case is being heard. The measure could also be extended to protecting witnesses.



THE WEEK AHEAD

ECONOMICS

Markets face surfeit of news from France, Germany and the US

THIS week promises to be unusually busy for the time of the month.

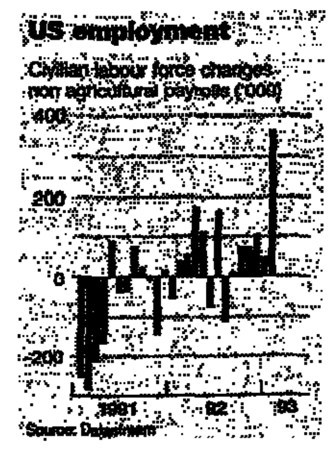
Financial markets will be keenly anticipating clarification of the new French government's policies as well as its membership following yesterday's second round of the National Assembly elections.

In the US, a raft of statistics, culminating in Friday's non-farm payroll data for March, will give new insights into the strength of the US economic recovery and whether President Bill Clinton's deficit reduction plan has damaged consumer confidence.

The German Bundesbank's decision-making central council holds a regular fortnightly meeting on Thursday. Its decision late last week to cut the interest rate on its three-day Treasury bill sharply to 7.5 per cent has revived hopes that it may trim its official rates further in response to signs of accelerating economic slowdown in Germany.

Behind the scenes, senior officials in the foreign and finance ministries of the Group of Seven countries will be continuing urgent work on a support programme for the Russian economy. The possibility of new assistance for Russia will be raised in talks between Presidents Clinton and Yeltsin in Vancouver next weekend.

Meanwhile, rumbling trade



disputes between the US and its European Community partners will be given a new airing in talks between Mr Mickey Kantor, the US trade representative, and senior EC Commission officials in Brussels today and tomorrow.

In Britain, Mr Norman Lamont, the chancellor, and Mr Robin Leigh-Pemberton, the Bank of England governor, will be testifying on this month's Budget to the House of Commons Treasury and Civil Service Committee on Wednesday.

This week will see the release of important economic statistics from Japan, Germany and, in particular, the US.

Tomorrow's March consumer confidence index in the US will be closely watched for signs of further deterioration following the decline to 68.5 in February from 78.1 in December. February's US factory orders on Wednesday and the National Association of Purchasing Managers' index on Thursday will give an insight into the state of US manufacturing.

But most attention will focus on the March employment data. Non-farm payrolls increased by an unexpectedly strong by 365,000 in February, the largest such rise since January 1989. Many analysts expect employment gains will have been much slower this month. Another unexpectedly strong rise would suggest that the economy continues to grow well and casts doubt on the need for the expansionary elements in President Clinton's economic policy.

The main statistical releases and events are as follows. The figures in brackets are averages of what financial markets expect, according to MMS International, an economics consultancy.

Today: US, February new home sales (597,000), personal income (up 0.5 per cent), personal consumption expenditure (up 0.4 per cent). Canada, January employment earnings (up 3.2 per cent on year). Germany, InterAmerican Development Bank meets in Hamburg.

Tomorrow: US, March consumer confidence (67.4) . Japan, February unemployment rate. France, February unemployment rate (10.6 per cent). Australia, January current account (A$900m surplus). Canada, January real GDP at factor cost (up 0.3 per cent on month).

Wednesday: US, February leading indicator, factory goods orders, March Chicago NAPM. Japan, February construction orders, construction starts, housing starts.

Thursday: Germany, Bundesbank central council meeting. US, February construction spending (up 0.7 per cent), March NAPM index (55.0), initial claims week ending March 27 (347,000), money supply week ending March 22 (M2 up $1bn).

Friday: US, March non-farm payrolls (up 100,000), manufacturing payrolls (up 10,000), hourly earnings (up 0.2 per cent), unemployment rate (7 per cent). UK, March official reserves (unchanged), February housing starts. France, National Assembly resumes.

Saturday: Canada, Presidents Clinton and Yeltsin meet in Vancouver.

During the week: Germany, February industrial production (down 1 per cent on month), manufacturing output (down 1.3 per cent on month). Italy, February official reserves, balance of payments.

Peter Norman

RESULTS DUE

INCHCAPE, the motor and business services group, is expected to report substantially increased pre-tax profits, from £185m to about £248m, when its 1992 results are published today. Interest will focus on how the group has integrated Tozer Kemsley Millbourn, the motors and retailing concern bought for £383m at the end of 1991, and which is thought to have enhanced earnings.

Analysts will also want to hear how Toyota and Mazda vehicles are faring, now the car market is at last showing signs of recovery.

Interims, also today, from Lucas Industries, one of the largest UK engineering groups, will provide few surprises.

The group has already made clear its 1992-93 first half will be little better than the previous year when it made pre-tax profits of £200,000. But it is expecting to earn enough over the full year to pay a maintained covered dividend of 7p, pointing to total pre-tax profits of around £75m.

Pearson, the diversified group which includes the Financial Times in its range of interests, is forecast to show a fall in 1992 profits when it announces today.

Analysts are looking for around £140m-£146m, compared to £173.8m the year before. However, a maintained dividend is expected. Low activity in the US oil industry will have hit Camco, while recession will have taken its toll at Royal Doulton and the entertainments divisions.

Construction company **Taylor Woodrow** is expected to reveal pre-tax losses for last year of £65m to £70m when it announces results tomorrow. Analysts are expecting more than £60m of write downs to bring the company's land bank and properties into line with current market levels. After cutting its dividend at the interim stage, the final is also likely to be cut, possibly to 0.5p compared to 7.64p last year.

Analysts following **Burmah Castrol** believe the lubricants, chemicals and fuels group will on Thursday report annual profits ranging from £82m-£86m, compared with £79m in 1991.

The uncertainty arises because concern over the group's exposure to the faltering German economy, increased by its acquisition of the Foseco metallurgical business, is balanced by prospects for synthetic oil products in the US.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Fidelity European Values, 25 Lovat Lane, EC., 3.00.
BOARD MEETINGS:
Finals:
Aspen Comms.
Computer People
Edinburgh Fd. Mngrs.
Forth Ports
Hickson
Inchcape
Linread
Macallan-Glenlivet
Needler
Pearson
Interims:
Lucas Industries
MY Hldgs.
Scottish Asian Inv.

■ TOMORROW
COMPANY MEETINGS:
Allied Textile, Highburton, Huddersfield, 12.00.
Baldwin, The Registry, Royal Mint Court, EC., 10.00.
Castle Cairn Inv. Trust, 1 Charlotte Square, Edinburgh, 12.30.
General Cons. Inv. Trust, 49, Hay's Mews, W., 2.45.
BOARD MEETINGS:
Finals:
Avonmore Foods
BLP
Brake Bros
Cons. Venture Tst.
Croda Intl.
EBC
EW Fact
Henderson Highland
Hughes (T.J.)
Jeyes
Le Creuset
Macfarlane
Mayflower
Newman Tonks
Psion
Rhino
TT Group
Taylor Woodrow
Tibbett & Britten
Waterford Wedgwood
Interim:
Allied London Props.

■ WEDNESDAY MARCH 31
COMPANY MEETINGS:
BWD Securities, Woodsome House, Woodsome Park, Fenay Bridge, Huddersfield, 11.30.
Caldwell Invs., 12, York Place, Leeds, 12.00.
Securicor Group, Richmond Hill Hotel, Richmond Hill, Richmond, Surrey, 12.30.
Security Services, Richmond Hill Hotel, Richmond Hill, Richmond, Surrey, 12.15.
Yeoman Inv. Trust, Bride House, 20 Bride Lane, EC., 12.00.
BOARD MEETINGS:
Finals:
Arcon Res. Intl.
Boxmore Intl.
Broadcastle
Calor
Central ITV
Culver
Fife Indmar
Grampian Hldgs.
Harrisons & Crosfield
Hay (Norman)
Hogg Group
House of Lerose
Johnson Grp. Cleaners
London Securities
Ocean Group
QS Hldgs.
Scholl
Taylor Nelson AGB
Tilbury Douglas
Interims:
Adwest
Bridport-Gundry

■ THURSDAY APRIL 1
COMPANY MEETINGS:
Fleming Fledgeling Inv. Trust., 25 Copthall Avenue, EC., 12.00.
Gresham Telecomputing, The Crest Hotel, Eastleigh, Southampton, 10.00.
Heavitree Brewery, Trood Lane, Matford, Exeter, Devon, 11.30.
Throgmorton Trust, Insurance Hall, 20 Aldermanbury, EC., 12.00.
BOARD MEETINGS:
Finals:
Boustead
Burmah Castrol
Fairhaven
Great Southern
Jacobs (John I.)
Jourdan (Thomas)
TLS Range
World of Leather
Interims:
Gleeson
Spirax-Sarco Eng.

■ FRIDAY APRIL 2
COMPANY MEETINGS:
City Merchants High Yield Trust, 11 Devonshire Square, EC., 2.15.
Lonrho, The Barbican Hall, Barbican Centre, Silk Street, EC., 11.00.
BOARD MEETINGS:
Finals:
Assoc. Fisheries
British Dredging
Evered Bardon
Gaskell
Invesco MIM
Rathbone Bros
Shorco
Ulster TV

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the *preliminary results.*

PARLIAMENTARY DIARY

■ TODAY
Commons: Questions to Welsh ministers and Chancellor of the Duchy of Lancaster. Debate on motion to approve coal White Paper.
Lords: Housing and Urban Development Bill, committee. Pneumoconiosis (Workers' Compensation) (Payment of Claims) (Amendment) Regulations. Scottish Legal *Aid regulations.*
Select committees: Public Accounts – subject: Sale of Girobank. Witness: Sir Peter Gregson, permanent secretary, department of trade and industry, 4.30pm, room 8.
Home affairs – subject: Juvenile offenders. Witnesses: *Prison Governors' Association;* Prison Officers' Association, 4.45pm, room 15.

■ TOMORROW
Commons: Education questions. Questions to the Prime Minister. European Communities (Amendment) Bill, committee.
Lords: Trade Union Reform and Employment Rights Bill, committee. Video Recordings Bill, third reading. Local Elections (Variation of Limits of Candidates' Election Expenses) (Northern Ireland) Order.

■ WEDNESDAY
Commons: Scottish questions. *Legal Aid regulations.* Debate on EC report on Common Agricultural Policy.
Lords: Debates on the coal review and threat to independent television companies from European interests.
Select Committees:
Environment – subject: Housing Corporation. Witnesses: Professor Klein, Bath University and Christine Whitehead, London School of Economics, 9.15am, room 21.
Parliamentary Commissioner for Administration – subject: PCA report on compensation to farmers for slaughtered poultry. Witness: Mr Richard Packer, permanent secretary, ministry of agriculture, fisheries and food, 10am, room 19.
Trade and industry – subject: British Aerospace Industry. Witnesses: Rolls Royce; The Boeing Company, 10.30am, room 15.
Treasury and civil service – subject: March 1993 Budget. Witness: Mr Robin Leigh-Pemberton, governor of the Bank of England, 11am, room 8.
Education – subject: Special educational needs. Witnesses: Association of County *Councils, Association of* Metropolitan Authorities; Society of Education Officers, 4.10pm, room 18.
Public Accounts – subject: Matters on the Inland Revenue Standard report 1991-92. Witness: Sir Anthony Battishill, *chairman, Board of Inland* Revenue, 4.15pm, room 16.
Treasury and civil service – subject: March 1993 Budget. *Witness: Mr Norman Lamont,* the chancellor of the Exchequer, 4.30pm, room 8.
Home affairs – subject: Juvenile offenders. Witness: Mr Michael Jack, minister of state, home office, 4.45pm, room 15.

■ THURSDAY
Commons: Treasury *questions.* Questions to the Prime Minister. Easter adjournment debate. All night session of backbench debates.
Lords: Leeds Supertram Bill, second reading. London Local *Authorities Bill, third reading.* Debate on civil rights of Albanians in former Yugoslavia's Kosovo region.

■ FRIDAY
Commons: Short backbench debates.
Lords: Not sitting.

THE WEEK AHEAD

DIVIDEND AND INTEREST PAYMENTS

■ TODAY
Australian Ind. Dev. 10½% Bd. 1999 £105.0
Bradford & Bingley Bldg. Scty. Sb. Fltg. Rate Nts. 2001 £2082.41
Brit. Telecom Fin. 10⅝% Gtd. Nts. 1995 Ecu106.25
Cable & Wireless Int. Fin. 10¾% Gtd. Bd. 2002 £1037.50
Cardiff Auto Receivables Fltg. Rate Nts. 1995 £183.39
Daiwa O'seas Fin. Gtd. Fltg/Fxd. Rate Nts. 2002 $2015.90
Eksportfinans 8¼% Nts. 1995 $81.25
Fujita Fltg. Rate Nts. 1997 Y1078125.0
GUS 13.75p
GUS A 13.75p
Japan Airlines 8⅛% Gtd. Bd. 1996 £406.25
Marubeni Int. Fin. 6.4% Ser.C Bd. 1998 Y6400000.0
Nationwide Bldg. Scty. 11¼% Nts. 1997 £562.50
Do. Fltg. Rate Nts. 1996 £89.60
Newman Tonks 5.5p
Nomura Bk. Int. 9⅜% Gtd. Sb. Bd. 1995 $468.75
Sabre Int. (No.2) 6.4% Sec. Nts. 1998 Y640000.0
Saitama Bk. Fltg. Rate Sb. Ln. Ptcpn. Cert. 2000 $95.63
Southern Elect. 10¼% Bd. 2002 £1025.0
Stars 1 Class A Fltg. Rate Mtg. Bckd. Sec. 2029 £185.09
Sweden (Kingdom of) 11¼% Bd. 1995 £562.50
Tokai Bank Nederland Fltg/Fxd. rate Gts. Nts. 2002 $2041.18
Unilever Cap. 9¼% Gtd. Nts. 2000 $92.50
Yorkshire Elect. 6p
YRM 0.5p

■ TOMORROW
Brit. Gas Int. Fin. 9% Gtd. Nts. 1994 Ecu90
Brit. Land (Jersey) 8.625% Cv. Cap. Bd. 2011 £42.53425
Brit. Telecom Fin. 8⅝% Gtd. Bd. 1995 $431.25
GW O'seas Fin. Gtd. Fltg. Rate Nts. 1994 $263.96
Halifax Bldg. Scty. Fltg. rate Ln. Nts. 1996 (Ser.B) £222.03
Itoh (C.) Int. Fin. 7½% Gtd. Nts. 1994 Y750000.0
Kemira Fltg. Rate Nts. 1995 $263.96
OKI Elect. 6.5% Bd. 2000 Y650000.0
Seagram $0.14
Treasury 15½% Ln. 1998 £7.75
Treasury 7¼% 1998 £1.6958
U.K. Fltg. Rate Nts.'96 $81.25
Wood (S.W.) 0.5p

■ WEDNESDAY
MARCH 31
ABB Kent 6% Db. '88/93 £3
Do. 7¾% Db. '88/93 £3.875
Do. 8% Un. Ln. '88/93 £4
Aegis 9.875% Cv Un Ln 2002 4.80186p
Alexander & Alex. Servs. $0.25
Alexon Cv. Rd. Pf. 3.125p
Allied Radio 8% Cv Ln 2001 £4
Allnatt Lon. Props. 9¼% 1st Mtg. Db. '96/01 £4.625
API 3.85% Cm. Pf. 1.925p
Ashley 8.25p Cv. Rd. Pf. 4.125p
Assoc Br Eng 4.9% Cm Pf 2.45p
Do. 8% Cv. Rd. Pf. 4p
Atlantic Metropn. 12% Cv. Ln. '91/97 £6
Audax Props. 11% 1st Mtg. Db. 2021 £5.50
Automotive Prods. 3.5% Cm. Rd. Pf. 1.75p
Do. 4.55% 2nd Pf. 2.275p
Do. 9% Cm. Pf. 4.5p
BAA 11¾% 2016 £587.50
Barrow Hepburn 7.75% Cm Pf 3.875p
Bass Invs. 7¾% Un. Ln. '92/97 £3.6875
Bass 10.65% Db. '96/99 £5.325
Do. 4½% Un. Ln. '92/97 £2.25
Do. 7¾% Un. Ln. '92/97 £3.875
Bemrose 7½% Cm. Pf. 2.625p
BICC 7¾% Db. '90/95 £3.875
Blue Circle Inds. 5¾% 2nd Db. 1984/2009 £2.875
Boddington 4% Db. Perp. £2
Boots 7¾% Un Ln '88/93 £3.875
Boot (Henry) Cm. Pf. 2.625p
Boscombe Prop 5% 1st Pf 1.75p
Bowater 7.75% Cv. Pf. 3.875p
BP America 8¾% Gtd. Bds. 1999 Ecu86.25
Brit. Airways Cap. 9¾% Cv. Cap. Bds. 4.861644p
Brit-Amer Tobacco 5% Cm Pf 1.75p
Brit. Assets Tst. 4½% Pf. 1.575p
Do. 5% A Pf. 1.75p
Brit. Inv. Tst. 11.125% Sec. Db. 2012 £5.5625
Brit. Land 10½% Defd. 1st Mtg. Db. 2019/24 £5.25
Do. 11⅜% 1st mtg. Db. 2019/24 £5.6875
Brixton Est. 11.75% 1st Mtg. Db. 2018 £5.875
Brockhampton 9.5% Rd. Pf. 1996 4.75p
Brown (J) 4⅞% Sec. Ln. 2003 £2.4375
Do. 5⅝% Sec. Ln. 2003 £2.8125
Bruntcliffe Invs 7% Cm Pf 2.45p
Burtonwood Brew. 8¼% Db. '89/94 £4.125
Cable & Wireless 7% Cv. Un. Ln. 2008 £3.50
Cap. & Counties 6¼% 1st Mtg. Db. '93/98 £3.125
Do. 6¾% 1st Mtg Db '94/99 £3.375
Chapman Inds. 8½% 1st Mtg. Db. '93/98 £4.25
Chemical Bnkg. Fltg. Rate Snr. Nts. 1999 $48.13
Chillington Corp. 12% Cv. Un. Ln. 2001 £6.0
Churchbury Ests 9% Ln 2000 £4.50
City Site Ests. 10.5% 1st Mtg. Db. 2017 £5.25
Cleveland Place 5% Rd. Db. 2000 £2.50
Do. 7¾% Rd Db '88/93 £3.875
Do. 10½% Rd Db '90/95 £5.25
Do. 12⅛% Rd. Db. 2008 £6.0625
Coats Viyella 4.9% Cm. Pf. 2.45p
Collateralised Mortgage Sec. (No.8) Mtg. Bckd. Fltg. Rate Nts. 2028 £173.28
Do. (No.11) Class A 2028 £172.37
Comm. Union 8¾% Cm. Irrd. Pf. 2.845205p
Continental Bank $0.15
Contl. Illinois O'seas Fin. Gtd. Fltg. Rate Sb. Nts. 1994 $131.25
Cooper (F) Cv Rd Ptg Pf 3.25p
County Smllr Co's Inv 1.125p
Courtaulds 7¾% Ln 2000/05 £3.875
Courts (Furnishers) 5.9% Cm. Pf. 2.95p
Cowie (T) 10½% Cv Rd Pf 5.25p
Credit Fonciere de France 14¾% Gtd. Ln. 2007 £368.75
Dai-Ichi Kangyo Bk. 3⅞% Cv. Bd. 2004 $96.875
Daks Simpson 5% Cm. Pf. 1.75p
Debenhams 6¼% 2nd Db '90/95 £3.125
De La Rue 2.45% Cm. Pf. 1.925p
Dewvenish (JA) 3.85% Pf 1.925p
Do. 4.5% Cv. 2nd Pf. 2.25p
Drayton English & Int. 5½% Cm Pf 1.925p
Do. 8.875% Cm. Pf. 4.4375p
Do. 10⅝% Db. 2014 £5.3125
Drummond 8% Cm. Pf. 2.8p
Eastern Int Inv 9½% Db '92/97 £4.75
Elliott (B) 6½% Db '88/93 £3.25
Do. 7¼% Db. '90/95 £3.625
Emhart 6% Cm. Pf. 2.1p
Empire Stores 8¾% Db '91/96 £4.375
Engelhard $0.15
Erskine House Cv. Rd. Pf. 3.625p
Essex Water 9⅞% Rd Db '97/99 £4.9375
Do. 11.2% Rd Db '05/09 £5.60
Do. 11.5% Rd Db '95/97 £5.75
Do. 11¾% Rd Db 2002/04 £5.875
Euston Centre Prop. 10.4% 1st Mtg. Db. '92/97 £5.20
Ewart 8½% Un. Ln. '90/95 £4.25
Exeter Prf. Cap. Inv. Tst. 0.939p
Fidelity Distributing Money Fd. Aust. $ Fd A$0.345
Do. Austrian Schilling Sch7.9237
Do. Canadian $ C$0.3905
Do. Deutschmark DM1.2062
Do. Dutch Guilder Fl.1.0057
Do. ECU Ecu0.5032
Do. French Franc FFr2.3685
Do. HK$ HK$1.481
Do. Italian Lira L1110.21
Do. Japanese Yen Y 36.3541
Do. New Zealand Dollar NZ$0.7544
Do. Spanish Peseta Pta116.3905
Do. Sterling £0.374
Do. Swiss Franc SFr0.7012
Do. US Dollar $0.2222
Fidelity Euro Values Eq. Lkd. Un. Ln. 2001 0.9469p
Finsbury Growth 5% Pf 2.5p
Finsbury Tst. 5.25% Pf 2.625p
Fisons 5⅞% Ln 2004/09 £2.9375
Fletcher Challenge NZ$0.07
Foreign & Col Inv 5% Pf 1.75p
Foreign & Col. Eurotrust 5¾% Cv. Un. Ln. 1998 £2.875
Forminster 11% Cm. Pf. 5.5p
Fuji Bank 1¾% Cv Bd '02 $43.75
Fujitsu 3% Cv. Bd. 1999 $75.0
Do. 5½% Vo. Bd. 1996 $27.50
Fulcrum Inv. Tst. 2.65p
GATX $0.35
Gartmore Value Invs. 0.9225p
GEC 2.68p
Do. 7¾% Un. Ln. '88/93 £3.875
Gen. Elect. O'seas Cap. 5½% Stlg/ Dollars Cv. Gtd. Ln. '85/93 £2.75
Glynwed Int 10¾% Ln '94/99 £5.375
Govett Strategic Inv. 11½% Db. 2014 £5.75
Grainger Tst. 11¾% 1st Mtg. Db. 2024 £5.875
Great Portland Ests. 8¼% 1st Mtg. Db. '90/95 £4.125
Do. 9.5% 1st Mtg Db 2016 £4.75
Do. 10¾% 1st Mtg Db 2021 £5.375
Greenalls 8% Cm. Pf. 4p
Greenhaven Sec 7½% Ln '91/96 £3.75
Gresham Tst. 6½% Gtd Ln '88/93 £3.25
Do. 8% Gtd. Un. Ln. '88/93 £4.0
Grosvenor Dev. Cap. 7½% Cv Ln '99 3.75p
GT Chile Growth $0.25
Haco 10⅝% Several Db 2017 £5.3125
Halifax Bldg. Scty. Fltg. Rate Ln. Nts. 1996 (Ser.A) £29.18
Halma 11% Cm. Pf. 5.5p
Hampton Tst. 10½% 1st Mtg. Db. 2025 £5.25
Haslemere Ests. 10¼% 1st Mtg. Db. '98/03 £5.125
Hestair Cons Prods 6% Ln '85/95 £3.0
Hewetson 0.5p
Higgs & Hill 8% Ln '89/94 £4.0
Hill & Smith 14% 1st Mtg. Db. 2000/03 £7.0
Homer Fin. Class A Mtg. Bckd. Fltg. Rate Nts. 2028 £179.76
Do. Class B £223.97
Housing Fin Crp 5% Db 2027 £2.50
Do. 7% Db. 2009 £3.50
Do. 7% Db. 2009 (Ser. 2) £3.50
Hoyle (J) 5% Cm. Pf. 1.75p
Inchcape 10½% Ln '90/95 £5.25
Do. 12½% Ln '93/98 £6.25
Inco Eng. 11% Db. '96/01 £5.50
Investment Co. 0.5p
Do. 6% Cm. Pf. 1.05p
Investors Cap 7¼% Db '92/97 £3.625
Johnson & Firth Brown 11.05% Cm. Pf. 5.525p
Do. 11% Un. Ln. '93/98 £6.42
Johnston Grp. 10% Cm. Pf. 5p
Jones Stroud 10% Cm. Pf. 5p
Jos Hldgs. 2.875p
Kakuzi KSh0.50
Kelsey Inds 11¼% Pf 5.625p
Keystone Inv. 5% Pf 1.75p
Kirin Brewery Y5
Land Sec 6% 1st Mtg Db '88/93 £3.0
Do. 7¼% 1st Mtg Db '91/96 £3.625
Do. 9% 1st Mtg Db '96/01 £4.50
Do. 6¼% 1st Mtg Db '93/98 £3.125
Do. 10% 1st Mtg Db 2025 £5.0
Do. 10% 1st Mtg Db 2027 £5.0
Do. 8½% Un. Ln. '92/97 £4.25
Do. 6⅞% Ln '92/97 £3.4375
Laporte 5¾% Db. '88/93 £2.875
Do. 8% Db. '93/98 £4.0
Do. 10¼% Db. '94/99 £5.125
Leeds (City of) 13½% Rd. 2006 £6.75
Leigh Ints. 6% Cv Rd Pf 3p
Lon. American Ventures Tst. 4% Cm. Pf. 2p
Lon. Cremation 10% Cmn Pf 3.5p
Lon. Merchant Sec. 10% 1st Mtg. Db. 2018 £5.0
Lonrho 10¼% 1st Mtg. Db. '97/02 £5.125
Lookers 8% Cv. Cm. Rd. Pf. 4p
MEPC 3.65% Cm. Pf. 1.825p
Do. 8% Un. Ln. 2000/05 £4.0
Do. 9¾% 1st Mtg Db '97/02 £4.875
Do. 12% 1st Mtg Db 2017 £6.0
Marston Thompson Evershed 7% Un. Ln. '93/98 £3.50
Martin Marietta $0.42
McCarthy Stone 7% Cv Ln '99/04 £3.50
Merlin Int. Green Inv. 1.1p
Do. Units 1.1p
Mitsubishi Elect. 2⅞% Cv. Bd. 2000 $71.875
Do. 5¼% Cv. Bd. 1998 $131.25
Do. 5¾% Cv. Bd. 1996 $143.75
Morland 5% Cm. Pf. 1.75p
Morris Ashby 1.7p
Mucklow (AJ) 6¾% 1st Mtg. Db. '89/94 £3.375
Do. 13¼% 1st Mtg Db '00/05 £6.625
Do. 7½% 1st Mtg Db '90/95 £3.75
NEC 2⅞% Cv. Bd. 2000 $71.875
Do. 5¼% Cv. Bd. 1997 $131.25
Do. 5¾% Cv. Bd. 1996 £28.75
NEC Fin 10⅝% Db 2016 £5.3125
Do. 13⅝% Db. 2016 £6.8125
NMC Cm. Rd. Cv. Pf. 3.875p
Nationwide Bldg. Scty. Fltg. Rate Nts. 1996 (Ser.2) £29.18
New Frontiers Dev. Tst. 6½% Cv. Un. Ln. 2010 £3.25
New Throgmorton Tst. 12.6% Db. 2008 £6.30
Newcastle-upon-Tyne 11¼% Rd. 2017 £5.625
Nissan 5¾% Cv Bd '98 $143.75
Do. 6% Cv. Bd. 1996 £30.0
North Devon Water 4% '96 £2.0
Northern Telecom $0.09
OK Bazaars 6% Gross Cm. 1st Pf. R0.06
Do. 5% Gross Cm 3rd Pf. R0.05
Oldham Met. Borough Council 12.4% Rd. 2022 £6.20
Oliver 5.25% Cm. Pf. 2.625p
Orient Fin. 8% £/$ Payable Cv. Bd. 1995 £40.0
P & O Prop. 6¾% 1st Mtg. Db. '89/94 £3.375
Do. 7¼% 1st Mtg Db '91/96 £3.625
Do. 8% Un. Ln. '97/99 £4.0
PCO Fin 8% Cv Cap Bd '05 £200.0
Pearson 8.25% Un Ln '88/93 £4.125
Do. 5.675% Un Ln '88/93 £2.8375
Do. 6.975% Un Ln '88/93 £3.4875
Peel South East 8¼% Un Ln '87/97 £4.125
Petroleos Mexicanos 14½% Ln '06 £7.25
Phoenix Timber 6% Cm. Pf. 2.1p
Portsmouth Water 3½% Perp Db £1.75
Do. 3% Perp. Db. £1.50
Do. 13% Rd. Db. 1994 £6.50
Do. 10⅝% Rd. Db. 1996 £5.3125
Prop. Hldg. Inv. 7% 1st Mtg. Db. '90/98 £3.50
Pubco 11¼% Sev Db '06 £5.625
Public Serv. Enterprise $0.54
RIT Cap. Partners 2.5% Cv. Un. Ln. 2000 £1.25
Readicut Int. 6% Cm. Pf. 1.05p
Do. 5¾% 2nd Cm. Pf. 2.0125p
Do. 8¾% Un. Ln. '88/93 £4.375
Reckitt & Colman Cap. Fin. 9.5% Cv. Cap. Bd. 2005 4.75p
Renold 6¾% 1st Db '90/95 £3.375
Rights & Issues Inv. Cap. 0.415p
Do. Inc. 6p
River & Merc Tst 8½% Db '89/94 £4.25
Royal Bk. of Can. Fltg. Rate Db. 2005 US$29.22
Royal Bk. of Scot. Ser. A Non. Cm. Pf. $0.703125
Do. Ser.B $0.70
Do. Ser.C $0.59375
600 Grp. 3.15% Cm. Pf. 1.575p
Do. 4.55% Cm. 2nd Pf. 2.275p
Do. 11% Un. Ln. '92/97 £5.50
S & U Stores 6% Cm. Pf. 2.1p
SEP Ind. Pf. 0.9565p
St. Davids Inv. Tst. 3p
Salvesen (C) 5.6% Cm. Pf. 2.8p
Savoy Htl 8½% Un Ln '93/98 £4.25
Scantronic 5.75% Cv Rd Pf 2.875p
Scapa 8% Un. Ln. '88/93 £4.0
Scholl 8⅞% Pf '01/05 4.4375p
Do. 5¼% Cv Cm Pf '01/11 2.625p
Scot. Mortgage & Tst. 8-14% Stppd. Int. Db. 2020 £7.0
Scot. Natl. Tst. Inc. 1.55p
Do. Stppd. Pf. 3.190704p
Do. 10% Db. 2011 £5.0
Securicor 4.55% Ptg Pf 32.988p
Sec Tst of Scot 4½% Pf £1.575
Do. 12% Db. 2013 £6.0
Senior Eng 9.6% Ln '91/96 £4.80
Shires Inv 11% Cv Ln '03/04 £5.50
Shires High Yielding Smllr Co's Tst. 2.2p
Smith New Court 12% Sb Ln '01 £6.00
Smith St. Aubyn 6% Non Cm Pf 2.1p
Do. 9½% Cm. 2nd Pf. 4.75p
Smith (WH) 5¾% Cm. Pf. 2.875p
Do. 3¾% Cm. Rd. Pf. 1.875p
South African Brews. 6.2% Cm. Pf. R0.062
Do. 7% Rd. Cm. Pf. R0.007
Stag Furniture 11% Cm. Pf. 5.5p
Standard Chartd. 12⅞% Sb. Un. Ln. 2002/07 £6.4375
Staveley 5¼% Cm. Pf. 1.8375p
Do. 7½% Un. Ln. '88/93 £3.75
Sterling Estates 8% 1st Mtg. Db. '88/93 £4.00
Sterling Inds 5½% 1st Pf 1.925p
3i 7¼% A Db. '91/94 £3.625
Do. 9% A Db. '91/94 £4.50
THFC (Indxd) 5.65% IL 2020 £3.2299
TSB Perp Fltg Rate Nts £191.40
TSB Hill Samuel Bk. 8% Ln '89/94 £4.00
Tate & Lyle 6½% Cm. Pf. 2.275p
Do. 7¾% Db. '89/94 £3.875
Do. 10¾% Un Ln '03/08 £5.375
Do. 8% Un. Ln. '03/08 £4.00
Do. Cv. Rd. Pf. 3.125p
Temple Bar Inv. Tst. 8.75p
Thai Prime Fd. $1.5
Tootal 7¾% Ln '89/94 £3.875
Tor Inv 4¾% Cm Pf 1.6625p
Do. 6% Cm. Pf. 2.1p
Trafford Park Ests. 11¾% 1st Mtg. Db. 2007/10 £5.875
Transport Dev. 9¼% Un. Ln. 1995/2000 £4.625
Treforest Silk Printers 6% Non-Cm. Pf. 2.1p
Unigate 4.95% Cm. Pf. 2.475p
Do. 3.9% Cm. Pf. 1.95p
Do. 5% Un. Ln. '91/96 £2.50
Do. 6½% Un. Ln. '91/96 £3.25
VSEL Consrtm 11% Ln '96 £5.50
Vickers 5% N/Cm. Pfd. £1.75
Do. 5% N/Cm. Pf. 1.75p
Do. Pf. 5% 2.5p
Volex 7% Cm. Pf. 2.45p
Warburg (SG) 7⅝% Cm Pf 3.8125p
Do. 6% Cv. Pf. 3p
Warner Est 6½% Ln '91/96 £3.25
Wells Fargo Fltg. Rate Sb. Nts. 2000 $48.13
Westland 12⅜% Db. 2008 £6.1875
Westpac Bkg. Perp. Cap. Fltg. Rate. Nts. $175.05
Whitbread Inv. 7-12% Stppd. Int. 2nd Db. 2010 £6.0
Whitbread 4½% Rd. Db. '99/04 £2.25
Wigfalls 6¾% Un Ln '94/99 £3.375
Wilkinson & Riddell 5% Cm Pf 2.5p
Williams Hldgs 10¾% Cm Pf 5.375p
Do. Cm. Cv. Rd. Pf. 4p
Wilshaw 0.15p
Wilson (Connolly) 8¼% 1st Mtg. Db. '90/95 £4.125
Wintrust 3p
Do. 10½% Cm. Pf. 5.25p
Do. 5.75% Cv. Cm. Pf. 2.875p
Yorks. Int. Fin. Gtd. Fltg. Rate Nts. 1994 £86.61

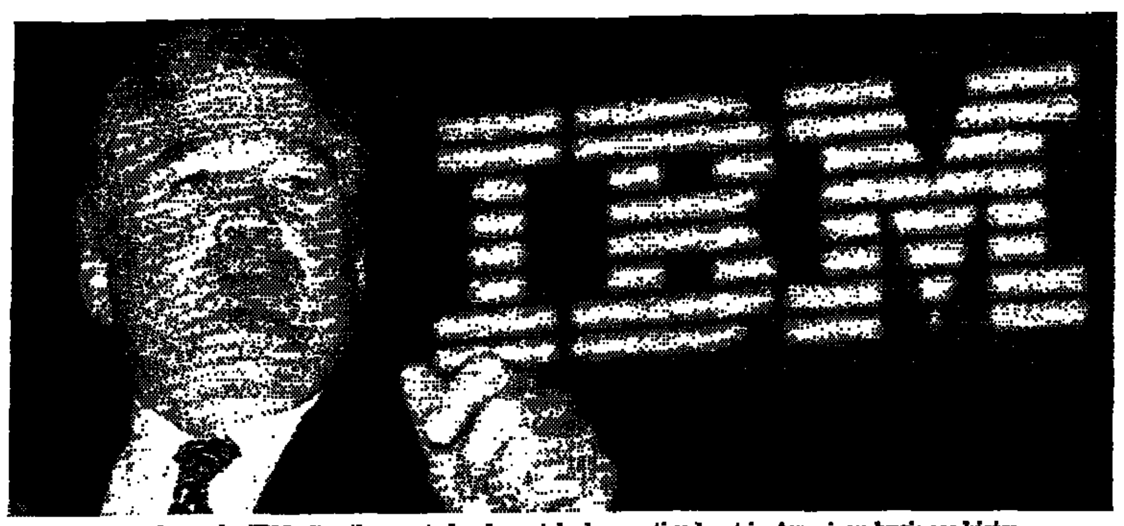
■ THURSDAY
APRIL 1
AAH 4.2% Cm. Pf. 2.1p
Airtours Cv. Pf. 0.873287p
Aitken Hume 7% Cv Rd Pf 3.5p
Allied-Lyons 9¾% Db 2019 £4.875
Do. 7¾% Un. Ln. '93/98 £3.875
Do. 7½% Un. Ln. £3.75
Do. 6¼% Un. Ln. £3.125
Do. 5¾% Un. Ln. £2.875
Do. 5¼% Un. Ln. £2.625
Do. 7¼% Rd. Db. '88/93 £3.625
Do. 6¾% Rd. Db. '88/93 £3.375
Do. 3¼% Rd. Db. '87/97 £1.625
Allied Textile 8.1p
Asda Prop. 10⅝% 1st Mtg. Db. 2011 £5.15625
Assoc Br Foods 6% Cm Pf 2.1p
Austin Reed 8% Cm. Pf. 2.8p
BET 5% Perp. Db. £2.50
Baldwin 3p
Do. 7% Cm. Pf. 2.45p
Bk. of Wales 13½% Sb. Un. Ln. '95/97 £6.75
Baxter Int. $0.25
Blick 6.2p
Blockbuster Ent. $0.02
Bridon 7% Pf. 1.225p
Bristol Water 6¾% Cm. Irrd. Pf. 3.54795p
Bristol Water Hldgs. 6.75% Cv. Rd. Pf. 3.375p
Do. 11¾% Rd. Db. 2004 £5.875
Do. 11.2% Rd Db '05/09 £5.60
Do. 12½% Rd. Db. 2004 £6.25
Brixton Est. 10⅝% 1st Mtg. Db. 2012 £5.3125
Buckingham Int. Sec. Cv. Rd. Ln. 1995 £1.50
Bullough 4.3p
Caffyns 10% Cm. Pf. 5p
Do. 6½% Cm. 1st Pf. 2.275p
Cape 8.4% Cv. Rd. Pf. 4.2p
Carclo Eng 10½% Rd Pf 5.25p
Cheam 7% Pf. 3.5p
Do. 4.9% Pf. 2.45p
Do. 3.15% 1st Pf. 1.575p
Chesterfield Prop. 5.25% Cv. Cm. Pf. 2.625p
Cleveland Place 6½% Rd Db '88/93 £3.267808
Coastal Corp. $0.10
Conversion 3½% Ln. £1.75
Courtaulds Clothing 7½% Cm. Pf. 2.625p
Craig & Rose 5% Cm. Pf. 1.75p
Crest Nicholson 5½% Cv. Cm. Pf. 2.75p
Dewhurst 1.26p
Do. A N/Vtg. 1.26p
East Surrey 9.5% Rd Pf 4.75p
Electron Hse 7.5% Cv Rd Pf 3.75p
Extel 10½% Cm. Pf. 5.25p
Fairline Boats 6.925p
First Chicago $0.30
Fleming Contl Euro 5% Cm Pf 1.75p
Fleming Far Eastern Inv. 5% Cm. Pf. 1.75p
Do. 4½% Cm. Pf. 1.575p
Fleming High Inc. Inv. 1.45p
GTE Corp. $0.455
Gen Cons Inv 5½% Pf £1.925
Glaxo 6¾% Ln '85/95 1.6875p
Granada 4.95p
Grand Met 4¾% Cm. Pf. 1.6625p
Hampson Inds Cv Rd Pf '91/03 3.25p
Hanson 2.85p
Hardys & Hansons 6% 2nd Pf 2.1p
Hollas 0.6p
Hull 2½% Rd. 1938 £1.25
Do. 3½% £1.75
ITT $0.495
Illingworth Morris 6½% Pf 2.275p
Do. 6½% Cm 2nd Pf. 2.275p
Impala Platinum R0.45
Johnson Matthey 5% Pf 1.75p
Do. 8% Cv. Cm. Pf. 4p
Keystone Inv. 11⅜% Db. 2010/15 £5.6875
Kingsley Forester 3.85% Cm. Pf. 1.925p
Kunick 7p Cv. Cm. Rd. Pf. 3.5p
Do. 8.25p Cv. Cm. Rd. Pf. 4.125p
Leeds (City of) 13½% Rd '06 £6.75
Leo 1 Class A1 Mtg. Bckd. Fltg. Rate Nts. 2035 £1717.93
Do. Class A2 £1854.71
Liverpool 3½% £0.875
Do. 3% Rd. 1942 £1.50
London (Corp. of) 3% 2007 £1.50
Low (Wm.) 6.75% Cv Rd Pf 3.375p
Menzies (John) 3.8p
Do. 9% Cm. Pf. 4.5p
MEPC 10½% Un. Ln. 2032 £5.25
Metropolitan Water Lambeth 3% Rd. Db. £1.50
Do. London Bridge Anns. £1.25
Do. 3% A 1963/2003 £1.50
Mid Kent Hldgs. 10% Rd. Pf. 1997 5p
Mid-Sussex Water 12% Rd Db 2010 £6.0
Do. 10% Rd. Db. 2013/17 £5.0
MITIE 1.5p
Morgan Crucible 3.85% Cm 1st Pf. 1.925p
Do. 3.5% Cm. 2nd Pf. 1.75p
Morton Sundour 3.5% 1st Pf 1.75p
Nat. Home Loans Sc. Fltg. Rate Nts. 1995 $2.57
Owners Abroad Cv Rd Pf 4.875p
P & O 5% Cm. Pf. 1.75p
Pepsico Cap. 8% Cv. Sb. Db. 1998 $80.0
Port of London Auth. 3½% 1949/99 £1.75
Property Sec. Inv. Tst. 1.5p
Prowting 8.8% Cm. Rd. Pf. 4.4p
Queens Moat Hses 7.5% Cv Rd Pf 3.75p
Do. 10¼% 1st Mtg Db 2020 £5.125
RCO 9.24p
Reading Corp. 3½% £1.75
Repola Free FM0.65
Republic New York $0.27
Rickmansworth Water 4% Cons. Db. £2.0
Do. 7½% Rd. Db. '91/93 £3.75
REA Hldgs Fltg Rate Ln '95/98 5p
Sara Lee $0.145
Sears Roebuck $0.40
Severn Trent 7p
Shell Trans. 5½% 1st Pf. 1.925p
Siebe 3.3275p
Smith (WH) A 4.3p
Do. B 0.86p
Southern Water 7.1p
Sphere Inv 5% Cm Pf 1.75p
Stewart & Wight 6% Pf 0.75p
Suffolk Water 9% Rd Db '92/94 £4.50
Do. 5% Perp. Db. £2.50
Do. 11.5% Rd. Db. '95/97 £5.75
Do. 3½% Perp. Db. £1.75
Do. 4% Perp. Db. £2.0
Symonds Eng 7½% Pf 2.625p
TR Far East Inc. Tst. 1.2p
Taylor Woodrow 9½% 1st Mtg. Db. 2014 £4.75
Thwaites (Daniel) 5% 1st Pf 17.5p
Town Centre Sec. 10½% 1st Mtg. Db. 2021 £5.25
Treas. 2½% (1975 or after) £1.25
Usher (Frank) 2.5p
Wade Potts 4.2% Cm Pf 1.05p
Waste Mngemt. $0.13
Wessex Water 7.3p
Whitbread 5½% 3rd Pf 1.925p
Do. 7% Rd. Db. '88/93 £3.50
Do. 5¾% Irrd. Un. Ln. £2.875
Wigan Corp 3% Rd. £1.50
Willis Corroon 1.65p
Witan Inv. 8½% Db. 2016 £4.25
Woolcombers 7½% Pf 2.625p
Do. 6% Cm. 2nd Pf. 2.1p
Worthington 0.5p
Xerox $0.75

■ FRIDAY
APRIL 2
Aerospace Eng. 0.25p
Alvis 0.5p
Do. 5.5% Cv N/Vtg Rd Pf 2.75p
Amicable Smaller Ents Tst 1.7p
ASDA 0.5p
Banks (Sidney C.) 3p
Black & Decker $0.10
BOC 12¼% Ln 2012/17 £6.125
Castle Cairn Inv. 0.8p
Central Motor Auctions 3p
E.I. Du Pont de Nemours 8% Nts. 2002 $80.0
Dyson (J & J) 2p
Do. A N/Vtg. 2p
Eng. & Scot. Investors 1.25p
Do. 3.75% Cm. Pf. £1.875
Excalibur 0.2p
Filofax 0.5p
Fleming Enterprise Inv. 1.3p
Fosters Brewing A$0.0275
Gartmore American Sec. 1p
Gen. Cons. Inv. 1.71p
Gestetner 6.4p
Heywood Wllms Cv Rd Pf 3.375p
Irish Contl. IR2.42p
Kleinwort High Inc. 1.875p
Maruetsu 6.45% Bd. 1997 Y645000.0
Do. 6.45% Bd. 1996Y645000.0
Ransom (Wm.) 0.5
River & Merc Smllr Co's 1.25p
Schlumberger $0.30
Seacon 3.1p
Second Alliance Tst. 12.5p
Do. 4½% Cm. Pf. £1.575
Sheafbank Prop Tst. 0.1p
Throgmorton Tst. 1.4p
Westpac Bkg. 10¾% Sb. Bd. 1993 £107.50

■ SATURDAY
APRIL 3
Kuala Lumpur Kepong M$0.10
Premark Int. $0.25

■ SUNDAY
APRIL 4
BP Fin. Aust. 6% Gtd. Bd. 1993 Y60000.0
Burtonwood Brew 7% Pf 2.45p

MANAGEMENT



Lou Gerstner: chosen by IBM after the most closely watched executive hunt in American business history

It takes a lot to be a superstar

Martin Dickson considers the ambitious wish-list drawn up by IBM in its hunt for a chief executive

Call it the International Business Machines superstar wish-list.

When directors of the troubled computer company began looking for a new chief executive last January, they spent a great deal of time discussing the most desirable characteristics of the leader to replace Mr John Akers, who is retiring early because of the group's poor performance.

They finally fixed on a list of 11 qualities, says Mr James Burke, the non-executive director in charge of what turned into the most closely watched executive hunt in American business history.

Last Friday he disclosed the contents of the list, partly to help justify IBM's announcement that it had given the job to a man without a high technology background – Mr Lou Gerstner, the chairman and chief executive of food and tobacco group R J R Nabisco.

In an interview with the FT, Mr Burke pointed out that only one item on the list referred to technology, and then with a qualification: 'Information and high technology industry experience highly desirable, says the note, but not averse to considering extraordinary business leaders.'

Mr Burke added that in his view IBM's problem is that "it is not run as much like a business as it needs to be". In these circumstances, "I think I would take a highly successful, tough-minded, strategic thinking businessman ahead of a technologist any day.

"There's all the technology... that they need in this company. A lot of it gets insulated and isolated from the customers' needs, and finding a way to bring those together is going to be a major challenge and opportunity."

However, in spite of his remarks, industry rumours persist that several of the other candidates on IBM's short-list, who did come from a computer industry background, may have turned the company down before it began serious negotiations with Mr Gerstner.

Whatever the case, controversy seems certain to rumble on for months between those in the computer industry who think IBM's problems can be fixed by a well-qualified general manager like Mr Gerstner, and those who believe it is extremely hard for someone without a computer background to make the hard choices facing IBM on technology strategy.

The computer industry is changing at phenomenal speed, with shortening product cycles.

The technology issue apart, the other 10 items on the IBM wish-list are also interesting for the light they shed on the company's perception of its own weaknesses and the qualities desirable in a leader of a global business in the 1990s.

● Customer orientation is prominent on the list, which is hardly surprising, since focusing relentlessly on customer satisfaction lies at the heart of most modern management theories.

But it is much easier to religiously intone this piece of jargon that it is to execute it. IBM itself has for years now been expressing a determination to get closer to the customer, but without much success.

"This company," says Mr Burke, "used to be the best there was at... satisfying customer needs. Its still pretty good in a lot of areas, but it's got to be a lot better." Mr Gerstner, as a former IBM customer himself, may bring a new perspective to the problem.

IBM's failure to anticipate market trends sufficiently quickly prompted Mr Akers to reorganise the business last year into more autonomous units, which might react more nimbly to customer needs. Mr Gerstner, who has a history of decentralisation, seems likely to accelerate the trend.

● International experience. This is clearly a vital quality for the leader of any large, multinational business such as IBM, particularly as global markets become more and more inter-connected.

Mr Gerstner has not lived abroad in senior management positions, but he has had plenty of international experience. As president of American Express he ran a business which is about as omnipresent around the world as IBM.

● Decisive analytical ability, creative visionary, effective and strategic thinker. These three qualities may seem basic to success in any business but they seem to have been in short supply at IBM as it has watched a relentless decline in the mainframe market on which it built its computer fortunes. IBM has been unable to articulate a clear new technological vision for itself and execute a strategy built around this.

Mr Gerstner comes to the company with a strong reputation for analysis and strategic thinking, but he may find it hard to articulate a creative vision in a high tech industry which is new to him.

● Unusual leader with immmediate credibility and record of business success as a chief executive. These two qualities suggest a need to appoint an individual with the record to reassure both the financial markets and IBM's staff that the group is now is strong management hands.

Mr Gerstner is generally well regarded on Wall Street. While his record at R J R is far from perfect – good on financial engineering, mixed at market share and profits growth – American Express enjoyed good growth under his presidency.

He is, however, virtually unknown in the computer industry and to most of IBM's employees, whose trust he acknowledges he will have to earn.

● Inspires and motivates executive teams. This is an obvious quality for a business leader, but it may have been in short supply at IBM, with its layers of encrusted bureaucracy. Mr Gerstner has a good reputation for motivating his executives – both by exhortation and financial rewards. His success at IBM will depend in no small measure on the team he selects to advise him.

Mr Gerstner also talks to people at all levels of a company. IBM employees often complain about the remoteness of 'the Armonk clique' of senior management at the company's New York state headquarters. The board's wish-list seems to lay no particular emphasis on one of the more popular ideas in management thinking – that of 'empowering' the workforce, devolving responsibility to workers right down the line and tapping them for their ideas on how a business should be run. One of the most forceful exponents of the theory is General Electric, which is often held up against lumbering IBM as an example of how a huge, diverse and technologically complex global business can stay quick on its feet.

● Making change happen; skilled at managing change; strong preference for experience and proven effectiveness in major turnaround or restructuring situations requiring a cultural change.

This group of characteristics reflects the increasingly popular idea that the best way to shake-up the entrenched culture of a business may often be to bring in a radical 'change agent' from outside.

A prime example is General Motors, the US car group which has been brought low by many of the same problems as IBM – in particular, bureaucracy and complacency bred by too much past success.

Probably the most powerful single agent of cultural change at GM North America over the past year has been Mr J Ignacio Lopez de Arriortua, an idiosyncratic, Spanish parts purchasing manager brought to Detroit from GM's European operations.

He infuriated the supply industry by demanding big price cuts and lecturing companies (including GM subsidiaries) on ways to improve their manufacturing methods. Volkswagen, the west German car company, has just hired Mr Lopez to create a similar upheaval there.

The hard-driving Mr Gerstner has plenty of experience as a change agent, but his record is not without flaws. His task at flabby RJR, when he took over the helm four years ago, was to financially restructure the heavily-indebted business, slash its fat and grow the business. He achieved the first two, but R J R still has a host of problems, with its foods business growing slowly and a loss of market share in tobacco.

Still, only a handful of chief executives around the world would stand a chance of qualifying for the IBM wish-list. And if the phrase 'infallibility essential' was added to the list, the number would immediately drop to zero.

Eleven qualities for an IBM chief executive

- ☐ High tech experience
- ☐ Customer orientation
- ☐ International experience
- ☐ Analytical ability
- ☐ Creative visionary
- ☐ Strategic thinker
- ☐ Unusual leader with immediate credibility
- ☐ Record of success as a chief executive
- ☐ Inspires and motivates executive teams
- ☐ Makes change happen

When it comes to the crunch

Christina Lamb on moves to reduce road accidents in Brazil

Anyone who has experienced Brazilian roads and survived can appreciate why the country holds the world record for traffic accidents. Driving licences are more often bought than earned. The results are predictably gruesome – 55,000 deaths per year – as many as if a Boeing 737 dropped out of the sky every day.

This daily carnage is also a costly headache for Brazilian industrialists who rely heavily on road freight to cover the country's continental proportions and few of whom have insurance because of its extortionate cost. Omar Carneiro Cunha, president of Shell Brasil, says: "We have 3,300 trucks and cars driving millions of miles on some of the most hazardous roads in the world, so the risks are enormous."

As many Brazilian executives are discovering, road accidents form a large component of business costs.

Yearly losses through traffic accidents are estimated at \$1.5bn (£1bn) and rising. Moreover, although the state of Brazilian roads is appalling after a decade of no investment, government statistics show 85 per cent of traffic accidents are through driver fault and thus avoidable.

An increasing number of companies is consequently including as an essential part of restructuring, "defensive driving programmes" for truck drivers, (both in-house and contracted), salesforce and personnel in general with spectacular results.

"The pay-offs are tremendous," says Cunha, pointing out that Shell has halved the number of avoidable fatalities per 100m km driven since launching a road Safety programme in 1987.

The strategy is simple and costs little. At Shell, a safety department was set up and consultants brought in to develop a short training course. Tarcisio Mosci, who runs the programme, explains: "However good your hardware, there is a number of accidents caused by software so rather than focusing on the lorries we focused on people." A specially produced video shows drivers the normal daily chaos on a Brazilian highway in graphic detail, enabling them to recognise all the errors they themselves make.

"Monitor drivers" were appointed, each responsible for 30 motorists. A list of 30 points was compiled to be checked before setting off, and all drivers underwent eye-tests. Quality groups were created for drivers and Shell representatives to exchange ideas, involving senior executives to demonstrate the importance of the scheme. More than half the trucking companies contracted by Shell were sacked because they did not come up to scratch.

Some 800 drivers per year pass through the course, which has cut the number of avoidable fatalities from 15.6 per 100m km driven in 1987 to 7.8 by 1991. To improve on this, Mosci is setting up a programme focusing on speed control and based at regional centres, aiming to reduce the figure by a further 50 per cent by the end of next year.

The reduction in costs is considerable, given that Mosci estimates that even under the improved figures, Shell and its contracted companies spent \$10m on accident costs last year. Moreover, he adds: When you can control risk in a situation as adverse as Brazil's traffic climate, then you have good management in general."

A similar programme has been under way since 1990 at Hering Textile, Brazil's leading textiles manufacturer, reducing losses through accidents by more than half to \$50,126 a year.

Osvaldo Lopes, risk manager for Herco, the Hering Group's in-house insurers, which developed an eight-hour programme that more than 2,000 employees have attended, explains: "The problem in Brazil, aside from the dreadful roads, is that most drivers have not been taught."

But both Lopes and Mosci admit that there is a limit to how much they can achieve in reducing accident costs without a national campaign to improve road safety awareness among Brazil's 15m motorists.

PEOPLE

Oil men move to top of Lloyd's Register

The traditional hold of shipowners in the running of Lloyd's Register, the world's oldest ship classification society, has been broken after more than 200 years.

Patrick O'Ferrall (right), 58, the new chairman, and Tim Jones, 48, the deputy chairman, both hail from the oil industry. O'Ferrall joined the register in January 1991 after 32 years in the oil industry and has been acting chairman since the death of Sir Roderick MacLeod, a former managing director of Ben Line, in January. Jones, who has spent 23 years with BP, joined in February.

Although O'Ferrall says that it will be "business as usual", the appointment of two oil industry men with substantial international expertise suggests that Lloyd's Register, like the rest of the maritime industry, is being forced to adapt to increasingly competitive conditions.

The decline in the profitability of the shipping industry and competition from rival ship classification societies has made life difficult for Lloyd's, which is committed to maintaining high technical standards of design. "The days when a ship's captain saluted the Lloyd's surveyor at the top of the gang-plank are long since gone," one master mariner said yesterday. Cost-conscious shipping companies are much more likely to question the surveyor's judgment or threaten to shift their fleet to another classification society.

Lloyd's, a non-profit making organisation with 3,700 staff and more than 250 offices worldwide, is still the biggest in the world – classifying more than 8,500 vessels, or around 90m gross tonnage. However, its percentage of the world fleet has been slipping and it has been diversifying into other areas.

O'Ferrall started with Iraq Petroleum in 1958 and joined Total CFP in 1974; he was responsible for co-ordinating the £1.5bn Alwyn North project. Tim Jones, a former director of BP Oil Europe, has also had considerable experience of large-scale project management.

Although Lloyd's normal retirement age is 62, O'Ferrall says that he will serve a five-year term until June 1988.

Fine balance at NHS Trust

The allocation of top jobs at Guy's and St Thomas' hospitals, which are combining to form the biggest National Health Service trust in London, shows a fine balance between the two ancient institutions. This follows the appointment earlier this month of Tim Matthews, St Thomas' chief executive, to head the new organisation.

Michael Maisey, consultant in nuclear medicine at Guy's, and Tony Young, consultant surgeon and director of surgery at St Thomas', will jointly hold the post of medical director on the new board.

John Pelly, finance director of St Thomas', will be the new finance director. He worked at 3i and Rank Xerox before joining the public sector.

The post of project director goes to Karen Caines, currently general manager of Guy's. Before taking up the Guy's job in 1991, she headed the Department of Health implementation unit responsible for introducing the NHS reforms. Before that Caines was deputy head of the 10 Downing Street efficiency unit where she was co-author of proposals leading to the establishment on Next Steps agencies, delivering services at arms-length from government.

■ Gabriel Scally, director of public health in Belfast, has been appointed to a similar position with South East Thames regional health authority, one of the four regions covering London and the home counties.

Finance moves

The integration of the Midland and Hongkong Bank investment banking businesses looks likely to be accelerated following the news of a new chairman for Samuel Montagu. Bernard Asher has been appointed to the board and will take over as chairman on April 9, succeeding Sir Michael Palliser, the 70-year-old former permanent secretary at the Foreign Office who has chaired Montagu since 1984.

Asher, who started out running Hongkong Bank's Wardley investment banking business, has already pushed through mergers between some parts of Wardley with James Capel, the UK-based broker which he has also chaired for the past two years.

Samuel Montagu remains, legally, a subsidiary of Midland, but in management terms now falls squarely within the HSBC group's investment banking operation. Sir Michael is to remain on the board as vice chairman.

■ Richard Jewitt, Alan Lynch and Gordon Williamson become northern region directors of BARCLAYS MERCANTILE BUSINESS FINANCE.

■ Shanti Sen has been appointed a director of BZW Property Advisory Group; she moves from SG Warburg.

■ John Ellis, formerly md of Crown Unit Trust Services, has been appointed finance and administration director of NEW DIRECTION FINANCE and NDF ADMINISTRATION.

■ Isobel Hunter and Harry Morgan have been appointed directors of ADAM & COMPANY INVESTMENT MANAGEMENT.

■ Ross Andrews has been appointed director of ALLIED PROVINCIAL SERVICES.

McClean: 'I just love newspapers'

McClean, 55, who joined the FT straight from school selling advertising from the paper's Birmingham office. Apart from two years in the Welsh Guards, he has worked on the paper ever since.

Richard McClean, who is due to become chief executive of the International Herald Tribune in July, had been planning to leave the newspaper industry this summer.

The deputy chief executive of the Financial Times, who has worked at the paper for 38 years, had decided to retire from the business, accept a number of non-executive directorships and take on something entirely knew.

But when he was approached by the co-chairmen of the international newspaper – Katherine Graham of the Washington Post and Arthur Ochs Sulzberger – of the New York Times the temptation was too great.

"I just love newspapers. That's the problem," says

He will succeed Lee Huebner, who has been publisher of the IHT since June 1979, and announced his intention to leave last September.

McClean was involved in the decision to turn the FT into an international newspaper with overseas printing sites. He believes that the process should continue; the IHT, he points out, is probably the most widely available international newspaper. The owners of the IHT, the New York Times and the Washington Post, he says, are "outstanding publishers with extensive financial resources and a strong commitment to high-quality publications". And as the deputy chief executive of the FT, newspapers at the top end of the business are something he understands.

CONSTRUCTION CONTRACTS

£28m work for Mowlem

An artist's impression of the proposed upgrading of Manchester Crown Courts in Minshull Street

MOWLEM NORTHERN has won more than £28m worth of new work in the north of England.

Mowlem's Manchester office has won the first phase of a £13.5m project to extend and upgrade Manchester Crown Courts for The Lord Chancellor's Office, a £1.1m contract to build Coppice Junior School, Oldham, for Oldham Metropolitan Borough Council and a £582,000 contract to build a Co-op store at Cheadle, south Manchester.

The North West Regional Health Authority has awarded a contract worth nearly £11m for new teaching and medical blocks at Hope Hospital, Salford.

The project consists of two linked, three-storey medical and patient accommodation blocks and a two-storey university teaching building.

Trans West African Highway scheme

Environmental and engineering management consultant WALLACE EVANS has been awarded two contracts in Sierra Leone and China with a total construction value of £23m.

The Government of Sierra Leone has appointed Wallace Evans for the £16m improvement of a 120 km section of the Freetown to Conakry highway - the principal link between Guinea and Sierra Leone and gateway to the economically vital port of Freetown.

The road is part of the strategically important Trans West African Highway that runs from Morocco in the north to Nigeria in the south.

The project includes the design for the rehabilitation of the 30km section between Masiaka and Rogbere and the design of a new road between Pamelap on the Guinea/Sierra Leone border and Farmoreah in Guinea.

Tender documentation for 74 km of new road between Rogbere and Pamelap, the design of which was completed in December 1992 by Wallace Evans under an earlier commission, is also included in the EC-funded study.

The superstructure for a £6.5m cable making factory in China is to be designed by the Wallace Evans firm.

Construction work is due to start shortly on the 200,000 sq ft building, located 10 miles from Bejing. The project is a joint venture between the Chinese government and a South Korean cable and wire manufacturing company.

Wallace Evans has designed the single-storey steel superstructure to withstand earthquakes. Staff undertook a detailed study of Chinese regulations, which took account of the climatic regional variations, followed by complex computer calculations to assess the stress the building would need to withstand.

Office development project in York

WIMPEY CONSTRUCTION's northern region has been awarded a £13m contract to design and build an office development for the Foss Development Corporation in York.

Known as The King's Pool, the project is situated on a three acre site close to the city centre, fronting the inner ring road and the River Foss.

When complete in autumn next year, The King's Pool will house 600 administration staff from the Ministry of Agriculture Fisheries and Food (MAFF). The civil servants will provide support services to MAFF's central science laboratory in Sand Hutton which is currently under construction.

The department is creating 300 local jobs and relocating 300 other staff from its offices in the south east of England to York.

Wimpey's work involves the construction of 140,000 sq ft of office accommodation in three buildings and a three-storey car park. Wimpey will also fit out the offices for MAFF.

Project manager for the scheme is Bishopthorpe Estates.

Bucknall Austin active

BUCKNALL AUSTIN has recently landed four German project management or quantity surveying commissions on projects collectively valued at more than £60m.

At Bucknall Austin's German subsidary, Day & Grigg GmbH, new commissions include:

● A new multi-level shopping centre in a converted listed building in Dresden valued at about DM40m (£16.5m) where Day & Grigg GmbH is sole consultant covering project management, costing and design co-ordination.

● A 200,000 sq ft district shopping centre outside Cologne where Day & Grigg GmbH is providing project management and quantity surveying services.

● A 40,000 sq ft speculative office and apartment building in a prime location in Berlin is scheduled to commence in May.

● A DM20m (£8.3m) office and apartment scheme in Frankfurt for which the firm has been appointed as project manager.

Water treatment

TRAFALGAR HOUSE WATER PROJECTS companies, Trafalgar House Construction and John Brown Engineering, have been awarded an £11.5m contract to replace three water treatment plants for the Strathclyde Regional Council. They are in the south Glasgow area, at South Moorhouse, Neilston and Picketlaw, and will be capable respectively of supplying 7m, 4.1m and 10.4m litres daily.

RAF headquarters

TILBURY DOUGLAS CONSTRUCTION has won orders worth £20m. The Ministry of Defence has appointed Tilbury Douglas as project manager for a £5m headquarters building at RAF High Wycombe. The building will provide office facilities for defence staff, together with auditorium and conference rooms with simultaneous translation facilities.

The London Borough of Islington has placed a £4m order for general improvement works at the Packington Estate.

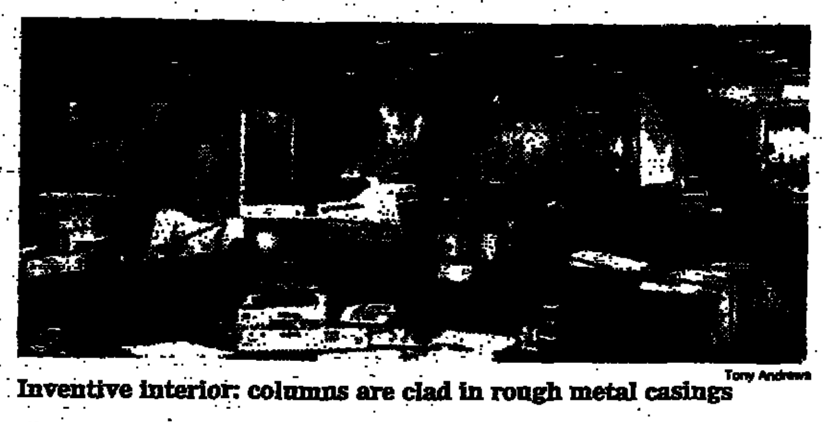
The new European Bank in London has a building to live up to, writes **Colin Amery**

The spirit of eastern promise

Look East seems to be the motto of the moment. The inauguration last week of the headquarters of the European Bank of Reconstruction and Development, in one of the recently completed office buildings of Broadgate, confirmed the success of that development which has so effectively extended the City of London to the east of Liverpool Street. Can it be a simple coincidence that the approach to the entrance of the bank on Exchange Square from the station is an elegant route called Great Eastern Walk? The role of the bank is to foster development and democracy in the newly liberated countries of eastern and central Europe, and as Mr Jaques Attali, the inspiring president of the Bank, said at the inauguration, "Europe is awakening to the east." In the same week Michael Howard, secretary of state for the environment, announced proposals for the development of an East Thames Corridor along the marshy and polluted banks of the Thames from Beckton to Sheerness. The question of how best to awaken London to the east is almost as difficult a question as how to achieve the rejuvenation of eastern Europe.

The importance of the European Bank and the wonder of it being in the City of London was underlined in a very positive speech by HRH The Prince of Wales when he inaugurated the new headquarters. He praised the decision of the bank to establish a new European Cultural Fund and took the opportunity to announce his own joint initiative with President Havel of the Czech Republic to create a Prague Heritage Fund for the restoration of some of the buildings, monuments and gardens of that remarkable city.

All this noble rhetoric seemed well grounded because it was issuing forth in the fine new halls of what Mr Attali called, "the first pan-European institution of the post cold war era". If the actual architecture of the interiors of the new bank is anything to go by, the new Europe promises to be both culturally stimulating and incredibly chic.



Tony Andrews

Inventive interior: columns are clad in rough metal casings

The architects for the interior of the building are an Anglo-French design team, a partnership of Berthet et Pochy and Sidell Gibson. They have achieved the remarkable feat of fitting out in record time a building designed by the American architects Skidmore Owings and Merrill for developer Mr Stuart Lipton (in his Rosehaugh Stanhope days). Broadgate development. What struck me as particularly exciting was the way they have completely transformed the whole idea of a banking environment. Their brief from the president was to give a visual rendering of the diverse nature of this international institution while making it possible for the open teamwork of the operation to function efficiently.

The result is no cold and clinical routine set of offices but an open and sparkling world with inventive spatial planning and an atmosphere that is visually stimulating. The tone is set by the entrance hall – a great mirrored space linking the Bishopsgate and Exchange Square entrances. The ceiling is mirrored to reflect the marble floor and the hewn slabs of Carrara marble that have been placed between the lifts. There are plans for a video wall and a piece of the Berlin Wall to be at the Exchange Square entrance. The cafe at the entrance level with an exhibition area will be open to the public. (Its first big exhibition will be a display of religious masterpieces from the State Museum of Sacred Art in St Petersburg, opening in April.)

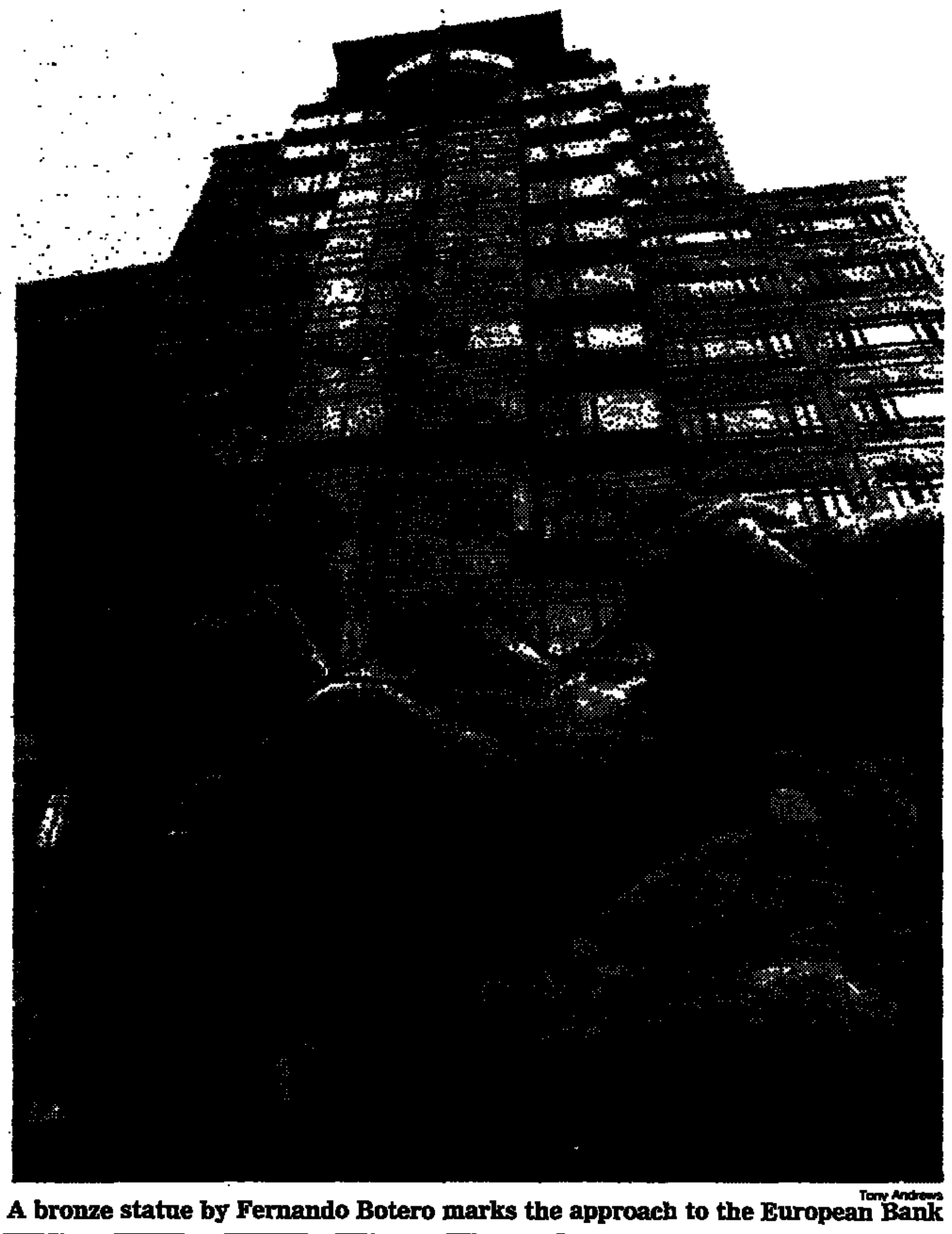
A large auditorium will house conferences and lectures and will also be the setting for a series of cultural events sponsored by the bank. A line of flags of member countries leads to the dramatic false perspective on the way to the staff restaurant.

The 12 floors of offices have been planned to relate to one another both horizontally and vertically. New internal staircases have been installed to encourage easy communication between the departments that work together to avoid dependence upon the well used lifts. The smaller top three floors house the president's office, the boardroom and the executive dining and meeting rooms. Many of these have remarkable views over Spitalfields and east London. Looking down on the immediate neighbourhood of the former Spitalfields market, which is dominated by the magnificent tower and spire of Hawksmoor's Christ Church, it is hard to resist the idea that this should become the newest residential area of the City instead of another sea of offices. Residential developers – look east.

The main office floors have a rather spectacular sense of space – and beautiful light sycamore furniture from the British firm of Gordon Russell. Meeting rooms are circular with red doors all named after the rivers of Europe. Tea and coffee areas are screened by glass panels etched with entertaining designs. There are some enjoyable jokes in the bizarre conical and pyramid signposts and the signs in the lobby areas which are engraved in reverse and look Cyrillic until you read them the right way round in the mirrored ceiling. When columns appear in large open spaces they have been dramatically clad in very tactile rough metal casings.

The top floors have a restful and simple quality – the emphasis here is on the quality of the materials and the display of some of the bank's art collection. The dining rooms bear the names of European composers and some will display memorabilia associated with the composers. Semi-precious stones from the Urals, artefacts from eastern Europe, paintings and sculptures combine to give the new offices something of an international intellectual content. The Italian government have given a series of Piranesi engravings, the developers have given the brilliant lion sculpture by Jane Ackroyd. A giant fresco by a Russian, Polish and French group of artists will shortly be unveiled, and a sculpture by Cesar has already been lent by the artist. The high quality and the originality of the commissioned art works have already given this new building a unique and distinguished character.

The European Bank is indeed welcome in London as a crucial and inventive catalyst for the new Europe. If the creative atmosphere of culture and commerce, which is so evident in the new headquarters, is indicative of its approach to the rejuvenation of formerly communist Europe then the future in the east will indeed be bright.



Tony Andrews

A bronze statue by Fernando Botero marks the approach to the European Bank

Theatre

Blood Wedding

Blood Wedding (1933) is the earliest of the "Spanish Earth" trilogy by Frederico Garcia Lorca (1898-1936), preceding *Yerma* (1934) and *The House of Bernarda Alba* (1935). Its violence is wedded to a surrealism that connects Lorca and his other work to the wider influences of 1920s Madrid and the specific influences of his friends Salvador Dali and Luis Bunuel.

The Lyric Hammersmith (with Odyssey Theatre) has now staged a fine, powerful and unsettling production of the play by balancing its tragedy and surrealism.

Lorca wrote *Blood Wedding* from a 1928 newspaper report of a Granadan bride who eloped with her lover on the wedding night. Her family pursued them; the groom and the lover killed each other. Behind the violence lie old family vendettas, and above it surreal preternatural forces: blood, death, time. Garcia Marquez used the same resonant themes in *Chronicle of a Death Foretold*, set in a small Colombian *pueblo*.

The strength of the Odyssey Theatre's *Blood Wedding* comes from its collaboration with Cumbre Flamenca. The music and dance fill out the concentrated action on the large stage at the Lyric. The flamenco brings mystery and intensity as well as authentic "cante jondo" (deep song), sadness and joy in a poised hand or a turned head. Ian Davies' fine guitar accompaniment creates the atmosphere, conjuring a hot July in Granada from a cold March in Hammersmith.

Alastair Muir

Powerful and unsettling: Rosalind Bennett and Patrick O'Kane in Blood Wedding

The play's surreal second part, where Death and the Moon preside over the bride and her lover, is beautifully handled by Helen Turner's design and Peter Mumford's lighting. The naturalistic *hacienda* interior of the opening gives way to a vertiginous effect with columns of light and falling sand, as if the stage itself was dropping away from gravity and reality towards the strange benediction and coda.

Nigel Jamieson's direction lets each of Lorca's tense, unfinished scenes engender the next, so the play develops rhythm and pace. The balance of a Lorca scene can change quickly, so pared down is the writing. He wrote strong parts for women, and the actors here respond well. Frances Tomelty (substituting at short notice for Sofia Kalinska) as the groom's mother is a stern, terse woman in a hard world, the crack in the strong voice with "My tears will come when I am alone." Opposite her, Rosario Serrano as the Mother-in-Law moves easily and expertly between song, dance and speech; and Rosalind Bennett is a prim bride in black, a sexy lover, and a desperate fugitive.

However, the patchy translation misses Lorca's visceral expression. "Aren't you happy with so many riches heaped upon you?" looks mannered alongside the bleak picture of marriage elsewhere: "A man, some children and a wall two feet thick. Nothing more."

Andrew St George

Lyric Theatre, Hammersmith until April 17

Concert/**Andrew Clements**

Stravinsky and Janáček

Stravinsky's *Symphony of Psalms* and Janáček's *Glagolitic Mass* compare and contrast wonderfully in a choral programme. It is not just the juxtaposition of a great composer with a lesser light, nor the devout expression of faith of a gnostic against the instinctive humanism of a confirmed atheist. These two pieces written just four years apart (the Janáček first in 1926) provide vertiginous differences of approach – the symphony's chaste discipline, the *Glagolitic*'s freely associating explosions of emotion – it is often hard to believe they are such close contemporaries.

On Saturday the latest instalment of "Towards the Millennium" brought the two works to the Festival Hall with the City of Birmingham Symphony Orchestra and its Chorus, conducted by Simon Rattle. Both were intense, vivid performances – representing the very best of Rattle one is tempted to say – with the Chorus, singing the mass from memory, wonderfully prepared and ready to respond crisply to every nuance. If anything it was the Stravinsky that emerged the more freshly minted; Rattle sifted and graded the textures of the first movement with pinpoint accuracy, untangled the fugal knots of the second, and gave an Apollonian elegance to the repetitions of the third.

The exuberance of the Janáček was captured in a very different way, with saturated orchestral splendour – bold, abrasive brass, high tensile strings, explosive organ solos from Thomas Trotter – and a willingness to play for high expressive stakes. Moments of over-exuberance sometimes threatened to overwhelm the soloists, but Faye Robinson's soprano, a-quiver with fervour, and John Mitchinson's stentorian tenor usually survived, while the textures generally gave the mezzo (Ameral Gunson) and bass (Stephen Richardson) an easier ride.

The orchestra had begun with Schoenberg's Variations for Orchestra Op. 31. Rattle steered a lucid course through its structural intricacies, making perfect, elegant sense of the variations themselves and bringing a real sense of mounting drama to the finale, as one development section collapses in on the next. Every particle of the instrumental playing was alive, sharp etched; it was just the gripping prelude, though, to an evening that was outstanding in every respect.

Royal Festival Hall; final London concerts tomorrow and Thursday

Recital/**David Murray**

Russian piano duo

When the Wigmore Hall advertised a recital of Russian two-piano music by Dmitri Alexeev and Nikolai Demidenko for last Saturday, some of their fans may have felt anticipatory thrills. But cynical old hands like me had their doubts. Part of what makes a successful virtuoso is a single-minded determination to catch the ear; such performers usually collaborate more easily with other instruments than with their own kind. Besides, Alexeev and Demidenko would seem less than a natural match. Where intense feeling and spontaneity characterise the one, the other cultivates perfection with forethought. Yet in the event, their differences were all but submerged in a shared passion for their native repertoire.

Though the occasion for the concert was the 50th anniversary of Rakhmaninov's death, there is not quite enough two-piano music by that composer, fortunately, to fill a programme. That made a good excuse for jettisoning his Suite no. 1 and adding some unfamiliar Medtner, and a chain of Schubert waltzes as arranged by Prokofiev. But Rakhmaninov carried the evening after all; and a tingling account of the brilliant Second Suite was certainly the crown of it.

His early Russian Rhapsody (1891) was at least interesting for its debt to Balakirev and Borodin, St Petersburg nationalists whose echoes were more often suppressed in Muscovite products such as Rakhmaninov's or Skryabin's. In the two-piano version of the Symphonic Dances (1940, very late), some quirks in the harmony sounded less plausible than in their opulent orchestral disguise. Still, with playing of such devoted expertise one could only sit back and enjoy.

Here and there, when Demidenko had an "accompanying" role his awesome authority made him rather too prominent, and in some *prestissimo* digital passages Alexeev audibly scrambled. No other quibbles but to remark that biological piano duos – the Kontarskys, the Contiguglia twins, the sisters Labèque and Pekinel – have set a standard of eerie unanimity that few other pairs can reach. Here, at phrase-ends and paragraph closes, Alexeev and Demidenko were regularly a fraction of a second apart: they just *are* different musical animals.

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/DANCE

Deutsche Oper The main event this week is a revival of Carmen on Wed starring Agnes Baltsa and Neil Shicoff (also April 5, 12, 18). The repertory also includes Il trovatore tomorrow, Valery Panov's production of Prokofiev's ballet Cinderella on Thurs, a ballet mixed bill with choreographies by Michael Clark, Stephen Petronio and Bill T Jones on Fri and Madama Butterfly on Sat. Peter Schaufuss' production of Giselle receives two performances on Sun (341 6249)

Staatsoper unter den Linden Antonio Pappano conducts the first night of Giulio Chazalettes' new production of I Capuleti e I Montecchi on Fri, with a cast led by Lella Cuberli, Iris Vermillion and Vicente Ombuena (repeated April 5,7,11,14). Other events this week include the Nureyev production of Sleeping Beauty tomorrow and Thurs, Aida on Wed and Sat with Mara Zampieri and Giorgio Zancanaro, and Maurice Béjart's new ballet production on Sun. April 8: Thomas Hampson song recital (200 4762)

Komische Oper Tonight: Le nozze di Figaro. Tomorrow, Sun, next Mon: new production of Flemming Flindt's ballet The Three Musketeers. Wed: Bartered Bride. Thurs: Cosi fan tutte. Fri: Cav and Pag (229 2555)

CONCERTS

Schauspielhaus Tonight: Heinz Rögner conducts Berlin Radio Orchestra in Mahler's Seventh Symphony. Also tonight (Kammermusiksaal): Kathleen Battle song recital. Wed: Daniel Nazareth conducts MDR Symphony Orchestra in works by Beethoven and Bruckner, with piano soloist Justus Frantz. Sat, Sun, next Mon: Yoel Levi conducts Berlin Symphony Orchestra in works by Beethoven and Bruckner, with piano soloist Christian Zacharias (2090 2156)

Philharmonie Tonight: Hiroshi Wakasugi conducts Berlin Radio Symphony Orchestra in Messiaen's Turangalila Symphony. Sat: Mischa Maisky is cello soloist in a Schumann concert by RIAS Youth Orchestra. Sun: Dvorak's Stabat Mater (2548 8232)

THEATRE

Alfred Kirchner directs Peter Turrini's new play Alpenglühen at Schlosspark Theater (793 1515). Schiller Theater's repertory includes Katharina Thalbach's new all-male production of Shakespeare's As You Like It (312 6505). Deutsches Theater has The Iceman Cometh, Eugene O'Neill's majestic play about pipedreams gone sour, in a new production directed by Rolf Winkelgrund (2844 1225). DT-Kammerspiele has the first German production of Howard Brenton's Berlin Bertie (2844 1226). Ariel Dorfman's moral thriller Death and the Maiden opens at Renaissance Theater on Sat, directed by Gerhard Klingenberg (312 4202). The world premiere of a new musical about Marlene Dietrich opens at Theater am Kurfürstendamm on April 7 (251 0144)

● Tickets and information for theatre, revues, concerts and nightclub shows available from City Center Theater und Konzertkasse, Kurfürstendamm 16 (tel 882 6563 fax 882 6567) and Theaterkasse im Europa-Center (tel 261 7051 fax 261 9286)

■ NEW YORK

THEATRE

● Candida: Shaw's play directed by Gloria Muzio. Just opened (Roundabout, Broadway at 45th St, 869 8400)

● Fool Moon: Bill Irwin and David Shiner are the inspired clowns in a much-admired show (Richard Rodgers, 226 West 46th St, 221 1211)

● A Couple of Blaggards: actors Frank and Malachy McCourt reminisce about their Irish childhood (Irish Arts Center, 553 West 51st St, 757 3318)

● Oleanna: David Mamet's powerful new play which stirs ideologues (Orpheum, 126 Second Ave at 8th St, 307 4100)

● The Sisters Rosensweig: Wendy Wasserstein's new play about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200)

● Forbidden Broadway 1993: Gerard Alessandrini's latest collection of Broadway parodies is as funny as its predecessors (Theatre East, 211 East 60th St, 838 9090)

● Someone Who'll Watch Over Me: Alec McCowen as one of three Beirut hostages in Frank McGuiness' moving and humorous play (Booth, 222 West 45th St, 239 6200)

OPERA/DANCE

Metropolitan Opera Tonight and Fri: Lucia di Lammermoor with Sumi Jo and Alfredo Kraus. Tomorrow: James Levine conducts Die Walküre with Gwyneth Jones, Mechthild Gessendorf, Gary Lakes and James Morris. Wed and Sat: La traviata with Tiziana Fabbricini and Neil Rosenshein (362 6000)

State Theater San Francisco Ballet begins a week-long residency tomorrow with Helgi Tomasson's production of Swan Lake, followed by three mixed-repertory programmes including Bintley's The Sons of Horus, Forsythe's In the middle and Balanchine's Four Seasons. New York City Ballet's Spring season opens on April 22 (870 5570)

CONCERTS

Tomorrow's programme at Carnegie Hall is Bach's B minor Mass. Wed: Australian Chamber Orchestra with guitar soloist John Williams. Fri: Hermann Baumann horn recital. Sun: Jessye Norman song recital (247 7800) Sun afternoon at Avery Fisher Hall: Yefim Bronfman piano recital. The New York Philharmonic is on tour in Europe (875 5030)

JAZZ/CABARET

Blue Note Tomorrow till Sun: Maynard Ferguson. Next week: Tony Williams Quintet. Showtimes 21.00 and 23.30. Dining (131 West 3rd St, 475 8592)

Ballroom Dave Frishberg opens a residency tomorrow. Restaurant/tapas bar (253 West 28th St, 244 3005)

Algonquin Hotel Weslia Whitfield begins a month-long run tomorrow in the Oak Room. Dining (59 West 44th St, 840 6800)

Michael's Pub Mickey Rooney is currently making his cabaret debut here (211 East 55th St, 758 2272)

■ PARIS

OPERA/DANCE

Châtelet Tonight: final performance of Barenboim/Chereau production of Wozzeck (4028 2840)

Palais Garnier Tomorrow: final performance of Capriccio starring Felicity Lott. Next week: Compagnie Preljocaj (4742 5371)

Opéra Bastille Wed: Benvenuto Cellini with Chris Merritt and Diana Montague. Fri: Faust with Francisco Araiza, Barseg Tumanian and Nelly Miricioiu. Next Mon: revival of Bob Wilson's production of Die Zauberflöte (4001 1616)

Théâtre de la Ville Compagnie Christine Bastin presents two Bastin choreographies, daily from tomorrow till Sat (4274 2277)

CONCERTS

Théâtre des Champs-Elysées Tonight: Kurt Masur conducts New York Philharmonic Orchestra. Tomorrow: Sandor Vegh conducts Camerata Academica in symphonies by Mozart and Schubert. Thurs: Ivan Fischer conducts Orchestre National de France in works by Prokofiev and Bartok, with piano soloist David Lively (4720 3637)

Châtelet Wed lunchtime: Elena Bashkirova piano recital. Wed evening: Daniel Barenboim plays Schubert. Thurs: Fine Arts Quartet. Fri: Jordi Savall plays Spanish early music. Sun afternoon: Ensemble InterContemporain plays Bartok and Berg. Next Mon: William Christie directs Les Arts Florissants in motets by Guillaume Bouzignac (4028 2840)

JAZZ/CABARET

Lionel Hampton Jazz Club Ann Peebles, voice of St Louis soul music, daily till Sat. Music from 22.30 (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, 4068 3042)

Châtelet Auditorium Tomorrow: Hank Jones Duo. Wed: Stanley Cowell Trio (4028 2840)

THEATRE

● L'Homme qui: Peter Brook's latest theatre piece, adapted from the book by Oliver Sacks (Bouffes du Nord 4607 3450)

● John Gabriel Borkman: Luc Bondy's Ibsen production (Théâtre national de l'Odéon 4441 3636)

● Il Campiello (Fin d'été à la campagne): a Goldoni bicentenary production of the play he wrote five years before his 1761 Country trilogy. Till May 6 (Théâtre 14, 20 ave Marc Sangnier 4545 4977)

ART FAIR

Salon de Mars: the annual art market at Champ de Mars opens on Wed and runs till next Mon. Held under a vast tent covering 10,000 square metres, it offers an eclectic choice of antiques, contemporary works and primitive art, disregarding the compartmentalisation of the traditional fair (Place Joffre, métro Ecole militaire)

* A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY

Super Channel: European Business Today 0730; 2230

Monday Super Channel: West of Moscow 1230.

Super Channel: Financial Times Reports 0630

Wednesday Super Channel: Financial Times Reports 2130

Thursday Sky News: Financial Times Reports 2030; 0130

Friday Super Channel: European Business Today 0730; 2230

Sky News: Financial Times Reports 0530

Saturday Super Channel: Financial Times Reports 0930

Sky News: West of Moscow 1130; 2230

Sunday Super Channel: West of Moscow 1830

Super Channel: Financial Times Reports 1900

Sky News: West of Moscow 0230; 0530

Sky News: Financial Times Reports 1330; 2030

Arts Guide

Monday: Berlin, New York and Paris.

Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.

Wednesday: France, Germany, Scandanavia.

Thursday: Italy, Spain, Athens, London, Prague.

Friday: Exhibitions Guide.

The unwritten code of lasting business

PERSONAL VIEW

Why is it that, when data transmission has become instantaneous and cheap, world financial centres are still concentrated in tiny areas of Manhattan and central London? Why is entertainment such a central element in Japanese business culture? Why is it that the way to revive the British motor industry is to shut down most of its traditional plants and re-start on greenfield sites? Why are the most successful parts of Italian industry based on local networks of small, co-operating companies? And how did banks manage to lose quite so much money in the past two decades?

The answers to all these questions are to be found in the different styles of business contracts and relationships that companies employ, and in the ways these depend on history and social environment. Long-term contracts are needed when parties need to make a substantive commitment to the relationship. A company needs to fit out an office to its specific needs; a sub-contractor needs to tool up for a particular component; an effective professional adviser needs to invest in knowing his client. No one will make these commitments on the basis of spot contacts alone.

One possibility is to make a classical contract – a binding agreement which specifies what will happen in every foreseeable contingency. That is how we rent property. But is has disadvantages. Not all contingencies are foreseeable. And there are aspects of a commercial relationship which the courts cannot, or *will* not, enforce. No contract can effectively prescribe for the full exchange of information or for flexibility in response.

There is a difference between the degree of co-operation which can be enforced by rules and the wholeheartedly concerted action of two individuals or two companies. It is the difference between a relationship with the local telephone company and the relationship with a marriage partner. We make a classical contract with the former, we have a relational contract with the other. The relational contract will have a legal form (as the marriage contract does), but (as with the marriage contract) it does not incorporate the essential elements of the relationship. These elements are implicit, and are enforced, not by any legal process, but by the need of the parties to go on doing business together.

Relational contracts are important in business too. They are necessary in areas where information exchange is important and where quick and flexible responses are necessary. *That is why they matter* in the financial services industry, in fashion businesses and in industries which assemble the products of a wide range of independent companies. *They are the key to the* competitive advantages of such companies as J.P. Morgan and Cazenove, Benetton and Christian Dior, Toyota and Marks and Spencer.

There are aspects of a commercial relationship which the courts cannot, or will not, enforce

Relational contracts involve risks as well as rewards. Each party is exposed to the risk of opportunistic behaviour by the other and the only protection they have is the reputation of the other and the shared need for a continuing relationship. The ability to make relational contracts effectively depends on the environment in which the company is placed. It is easier to make relational contracts when the relational style is the norm, safer to do it with someone who *has* made many other relational contracts.

The Japanese business culture is naturally supportive of relational contracting and the familiar pillars of Japanese management systems, with their emphasis on seniority, their practices of lifetime employment and their networks of sub-contractors, are all part of that. The American environment, in which the penalties for opportunistic behaviour are very low and everyone has an attorney at his shoulder, is naturally hostile to it. Italy is at one European end of *this spectrum and Britain at* the other. Geographical concentration and linking of social activities with commercial ones is important. Opportunistic behaviour is more costly if it damages your social as well as commercial reputation.

Relational contracting is not all good. The features of Japanese and Italian life which make these types of business behaviour possible are also reflected in nepotism and political corruption. Life run by unwritten rules can be constraining on talent and inhibiting *on innovation.*

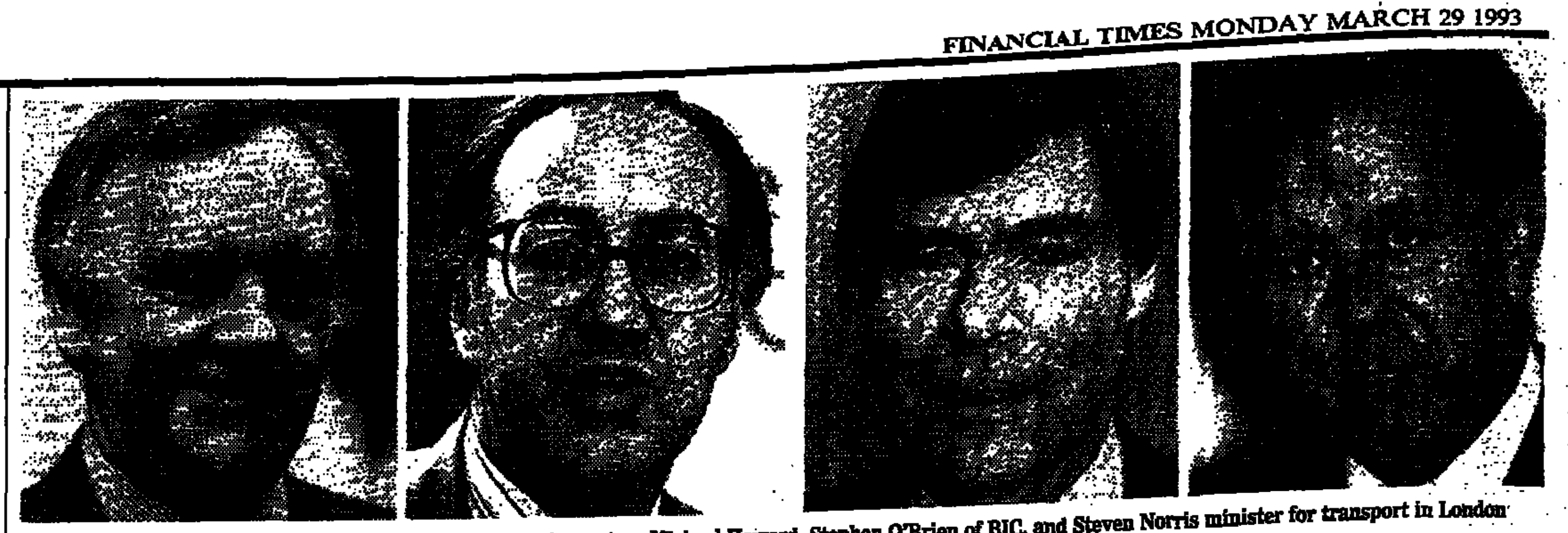
The US – an individualistic society founded on immigrants who had discarded many traditional values – provides the most innovative technical and *commercial environment* in the world. It is also the most litigious society, and competitive advantages based on design and style, or on the sustained co-operation of a disciplined labour force, are mostly found elsewhere. There are business areas where relational contracting is appropriate, and others where classical contracting performs better; we need to know which is which.

Yet we may not have a choice. It is easier to move away from relational contracts than towards them. UK banks were ready to discard such contracts with their customers and employees in the pursuit of a more commercial, performance-oriented transactional style of business. They paid a high price, but they cannot now put these relationships together again. Nor could Longbridge and Cowley substitute the co-operative history of Toyota's plants for their own.

For many people relational contracts seem an old-fashioned way of doing business. In reality it is a style of commercial relationship which we discard at our peril.

John Kay

The author is professor of economics at the London Business School. His book, Foundations of Corporate Success, has just been published by Oxford University Press, price £19.95



London first: Grand Met's Sir Allen Sheppard, environment secretary Michael Howard, Stephen O'Brien of BIC, and Steven Norris minister for transport in London

Too many bodies spoil the broth

John Willman and **Richard Tomkins** look at the duplication of effort in promoting London

Is London's government being privatised? This morning a private-sector organisation – with the blessing of the environment secretary, Mr Michael Howard – will publish plans to promote *London as* a location for business and an international tourist centre.

The proposals will be launched by London Forum, a private-sector initiative to provide the UK's capital with a shop window in which the city's wares can be set out to the world.

The forum is a sister organisation to another private-sector body, London First, which aspires to provide the strategic thinking needed to maintain and enhance the reputation of London as a world-class city.

The organisations share a chairman, Grand Metropolitan's Sir Allen Sheppard, and a chief executive, Mr Stephen O'Brien, vice-president of Business in the Community. Both are attempts to fill the vacuum left by the absence of an *elected city-wide or regional* body to represent London and to develop the strategic planning essential for a large city. A string of reports, from organisations such as the now-defunct National Economic Development Organisation, have repeatedly identified the absence of such a body as an impediment to improving London's competitive position as a world city.

The absence of strategic planning is potently symbolised by the state of the capital's transport infrastructure. Indisputably, transport is one of the most important ingredients in making a city an efficient and agreeable place in which to live and work. Yet in London, public transport is perceived as overcrowded, unreliable, underfunded and overpriced; on the roads, only recession has stopped congestion from bringing traffic to the brink of paralysis.

Inevitably, Londoners look to neighbouring capitals for comparisons. When they do, they find London scoring badly. Paris, for example, may suffer even worse traffic jams than London, but Londoners can only stand in awe of Paris's commitment to public transport.

Not only is the Metro more frequent and reliable than the Underground, but three cross-city lines have been built since 1987, a fourth is under construction, a fifth is planned, *and FFr71bn (£8.9bn) is due to* be spent as part of an expansion plan spanning the next 20 years.

By comparison, investment in new transport capacity in *central London has virtually* halted. Road building has long been ruled out as a solution to the capital's transport problems, but little has happened to take its place. The bus fleet *is ageing, the Underground* system is decaying faster than it is being renewed, and apart from a short stretch of the Jubilee Line, only one new Underground line (the Victoria *line) has been built since the* first world war.

Central Londoners can only look with envy at examples of what the government can do when it tries. In the Docklands area on the *capital's eastern* flank, some £3.5bn is being spent on a co-ordinated effort to stimulate regeneration through big improvements in transport infrastructure.

And further east, the government is now talking of developing a linear city down the east Thames corridor stretching from Docklands into north Kent. This means further vast sums will need to be spent on roads and railways outside the central area. To many, this looks perverse: a sort of transport equivalent of adding a luxurious new extension to a house whose roof is caving in.

Last year the government sought to counter accusations that it had no policies for transport in the centre of the *capital by appointing Mr Ste*ven Norris as minister for transport in London.

Investment in new transport capacity in central London has virtually halted

Mr Norris reels off a list of projects that he says will transform London's public transport: *CrossRail, the Jubilee* Line extension, Thameslink 2000, the East London Line extension, the Channel tunnel rail link, the Heathrow Express, the Chelsea-Hackney *line. And he rejects sugges*tions that Paris does things better: "This idea that everything is better across the Channel is simply untrue."

The capital itself, however, seems far from convinced. A report published by the Corporation of London, the local authority *for the City of Lon*don, earlier this month pointed out how the decision-making process on new transport projects was split between a "staggering" number of government departments, *quangos, bor*ough joint committees, representative organisations and the London boroughs themselves. Once agreed, the report said, these projects then became *subject to* the vagaries of the national public expenditure control process.

"There is little evidence that new central government arrangements have yet succeeded *where earlier planning* and governance systems failed," it concluded.

The creation of private sector bodies such as the London Forum and London First is *seen as the way forward by the* government. To back its efforts, a cabinet subcommittee on London, chaired by the environment secretary, was created last year to co-ordinate *policy.*

However, the creation of more bodies to promote the capital looks set to perpetuate the division of effort between disparate, *sometimes overlapping and occasionally compet*ing organisations, none of which can claim leadership.

Already there has been some discontent at the City Corporation over the duplication of effort created by the plethora of bodies.

One of London First's projects, for example, is a study of London's economic competitiveness, under a group chaired by Mr Stuart Hampson, chairman of the John Lewis Partnership, the retailer. The corporation is almost halfway through a £1.5m study on the same subject by the *London Business* School, which is producing a steady stream of papers such as the transport one already published.

Similarly, the corporation cannot be a formal member of *the London* Forum, since Mr Howard excluded local authorities from membership. Yet the corporation is one of the few bodies in London which can provide substantial funds, staff and other resources for the Forum's work.

Mr Michael Cassidy, chairman of the corporation's policy and resources committee, says that there is a danger that Londoners will be disappointed if the new body cannot launch its plans with an element of punchiness because it has no resources. They will be bringing "little new to the party", he says, except for added profile.

However, such arguments over turf beg the bigger question as to whether it is appropriate for such important strategic *planning* to be left *to* private sector organisations without adequate resources.

London First, for example, is backed by some 40 companies, each of which has chipped in *£5,000 apiece to fund its work.* These sums are paltry in relation the amounts which would be needed to address London's underlying problems.

This privatisation of London's *governance will only* work if it opens the Treasury's purse strings. It has yet to be proved that it can.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

A waste of energy

From Dr Andrea Haworth.

Sir, In the FT of March 25 you carried an advertisement for British Gas entitled "If you need to complain it won't be a waste of energy".

The list of 90 general managers established in local offices last year is entirely male (with the possible exception of Laurie and/or Robin). I would like to complain about this – but I feel it would be a waste of energy.

Andrea Haworth,
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Not wanting fool's gold

From Mr Onesimo Alvarez-Moro.

Sir, Here we go again. Not long ago, the west was backing one side in its desire to establish a system which it preferred.

Then it was Mikhail Gorbachev in the Soviet Union, now it is Boris Yeltsin in Russia. When is the west going to stop trying to impose its own system in other lands?

The Russians must be fed up – continuous promises of assistance and nothing forthcoming. Nothing, that is, except meddling in their internal affairs.

Capitalism and democracy will only ever become ingrained if the Russian people themselves are committed and become accustomed to these ways of life voluntarily.

If they look at how capitalism and democracy are functioning in other parts of the world they may not consider worthwhile the hardship which they have to undergo to get theirs.

The west should lead by example not by intervention. Until it does, when the time comes for people to look for bright torches to follow, they will by-pass the western fool's gold and prospect elsewhere.

Onesimo Alvarez-Moro,
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Spain

Clear duties and penalties the route to auditor independence

From Mr Derek Ridyard.

Sir, Prem Sikka, Anthony Puxty and Hugh Willmott (Accountancy Column, March 25) add their voices to the popular argument that separation of audit from consultancy work for the same client would ensure auditor independence. Judging by the research carried out by NERA into this subject, I would suggest that their proposals are unworkable. What is more, this policy prescription is not at all the most direct solution to the root of the problem.

When we collected data on audit-consultancy links among the Big Six accounting firms in 1990, we found that the various regulatory obstacles to such links throughout the EC were *mostly ignored*, avoided or evaded. In Germany (the example cited by Sikka *et al* as having an effective ban on audit-consultancy links) we found that more than 20 per cent of Big Six non-audit income came from audit clients. The corresponding figure was 35 per cent for the UK.

Even supposing audit-consultancy links could be eradicated, the problem of the auditors owing greater financial allegiance to the managers than to the shareholders of the audit client would remain. The audit is a major piece of business in its own right, so audit partners would *still* have a clear financial incentive to compromise independence if lent on by unscrupulous company managers.

The way to tackle this problem head on is to clarify the duties of the auditor to the shareholders. Clearer duties, and clearer penalties if these duties were not discharged, would provide an effective financial antidote to the incentive to compromise independence. Certain knowledge that poor audit checks will result in exposure to proper penalties would concentrate the auditor's mind wonderfully.

Shareholders' representatives, and the accounting firms themselves, should take more rapid steps towards this goal if they are to avoid the imposition of costly and ineffectual interference with their freedom to carry on consultancy work.

Derek Ridyard,
associate director,
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Tax proposals will hit small oil exploration companies while benefiting large producers

From Dr Michael F Ridd.

Sir, Since the chancellor's budget statement your pages have carried the reactions of two of the biggest North Sea oil companies to the proposed changes in the Petroleum Revenue Tax arrangements ("North Sea group may halve exploration after oil tax change", March 24). At the other end of the spectrum is a company like my own, arguably the smallest North Sea oil company and yet one which would be strongly affected if the chancellor's proposals were to be implemented.

Over several rounds of North Sea licensing Croft has built up a portfolio of exploration acreage, *committing to the govern*ment to carry out certain seismic surveys and drilling. Our plans and commitments had been based on a fiscal regime in which our exploration and appraisal costs could be relieved against our PRT liability from the one producing field we have, Claymore. Under the chancellor's proposals the work we shall have to carry out under those commitments to government will effectively quadruple in cost. And, similarly, any discretionary exploration or appraisal work we might wish to carry out in the UK will be made that much more costly. Expressed another way, from 1996 when the PRT changes would *begin to bite*, our North Sea production revenue (and hence the money available for exploration) will halve.

That is how a company largely devoted to *exploration* and appraisal will be affected. But certain other North Sea oil companies have such large producing interests and pay such large PRT bills that their effective increase in exploration and appraisal costs under the chancellor's proposals will be outweighed by the chancellor's other proposal, to reduce the PRT rate on existing fields *from 75 to 50* per cent. Such companies, although few in number, are naturally rejoicing as your March 25 headline points out: "BP defends oil tax from attacks."

Mr John Browne of BP is reported as saying that for too long the taxpayer has subsidised exploration. The reason he is now rejoicing is because the chancellor is proposing that in future the taxpayer will instead foot the bill for BP's increase in North Sea revenue, estimated at up to £140m a year.

Mr Browne is one of the few North Sea oil company executives to consider exploration levels will not be seriously affected by the proposed changes, reportedly saying that instead it will give exploration a stronger focus and make it more cost-effective. If drilling success rates have *declined* from 1 in 5 to 1 in 7, as he says, it is not because of inefficient exploration but because with advancing maturity the North Sea is yielding smaller discoveries of which more are falling beneath the threshold of commercial viability. "Stronger focus" is simply a euphemism for cutting the number of wells drilled, and fewer wells will mean fewer commercially viable discoveries.

The government estimates that up to 25bn barrels of oil and 44 trillion cubic feet of gas *may remain to be discovered in* the UK. Finding those reserves will require sustained high levels of exploration. On the whole, over the past 30 years the fiscal regime has been conducive to such exploration – that could now change.

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FINANCIAL TIMES
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Monday March 29 1993

Spoils of the North Sea

ANY TAX reform as sweeping as the chancellor's new fiscal regime for North Sea oil inevitably creates winners and losers. The more important question is whether it creates the right incentives to ensure that maximum economic benefit is extracted from the dwindling energy resources that remain. Since the present arrangements are excessively complex, incorporate inadequate incentives for companies to control costs, and are ill-designed for a period in which many North Sea oil fields are reaching maturity, the reforms probably have more to commend them than the complaints of the smaller oil producers might suggest. But if form is any guide, they will not produce quite as stable a long-term regime as the chancellor predicts.

Under the old regime, only a small number of fields paid PRT at all and most of these were older fields. This was because exploration and appraisal costs could be off-set against the income from existing fields, thereby reducing or eliminating the charge to petroleum revenue tax (PRT) and corporation tax. The effect was to cut the cost of exploration and appraisal to less than 17p in the pound, which provided a powerful incentive for drilling activity. But the tax take from existing fields, which suffered from a combined rate of royalty and tax charges of just over 85 per cent, provided a countervailing disincentive to further development. As a result there was a risk that substantial energy resources would be left untapped. This has led to suggestions from some larger companies, which are responsible for about 80 per cent of the development of existing fields, that the exploration tail has been allowed to wag the development dog. It has also led to a great deal of lobbying.

Underlying logic

In his budget package, the chancellor appears to have bought the big companies' argument. A reduction in the rate of PRT from 75 per cent to 50 per cent means that the combined tax rate for those existing fields that pay royalty and corporation tax as well as PRT will fall from 85 per cent to nearer 70 per cent. And it is hard to quarrel with the underlying logic, given that the current rate of PRT was set when the oil price was three times higher in real terms and costs were significantly lower. The more difficult question is whether the accompanying abolition of PRT relief on exploration and appraisal costs, together with the switch to corporation tax on new fields, will lead to an undesirable reduction in the amount of exploration activity.

Unhappy timing

North Sea exploration has already been falling for predictable reasons: the odds on drilling successfully, according to British Petroleum, have gone from one in four to one in seven over the past five years. Exploration is understandably gravitating to more attractive prospects elsewhere. Judging by the initial reaction of many independent oil companies, this trend will accelerate. But the fact that the PRT regime has actually been costing the exchequer money poses a question about whether the government may now be subsidising sub-optimal investment in the North Sea. Certainly the reforms mean that future exploration will be more cost conscious; but because the prize to be had from developing new fields will be greater under corporation tax rules than before, the Treasury's calculation must be that drilling will continue where the prospects of significant finds are best. From negative PRT revenues of £200m in 1991-92, the Treasury expects an inflow of £300m in 1994-5 and £400m thereafter.

It is nonetheless worrying that the hard-pressed independent sector, which has performed a useful role in the North Sea, is being so obviously disadvantaged relative to the giants of the industry – and hardly surprising that independent companies are distrustful of the Treasury's motives. The timing of the chancellor's move also looks unhappy, given the adverse job consequences at a time of rising unemployment. That said, the broad thrust of the tax reforms is right for a North Sea that is reaching maturity. But if the suspicion that the Treasury's revenue calculations are based on over-optimistic assumptions about the future level of exploration proves right, the new corporation tax regime will no doubt grow complications just as readily the old PRT did.

Mixed message for French right

THE SWEEPING election victory of the French conservatives has delivered two contradictory messages, which could lead them to adopt two *opposite* strategies of government. The simple message is that the electorate has handed down a categoric rejection of the discredited Socialist party, and given the conservatives a licence to charge ahead with a populist right-wing programme, even if this involves getting into fights with the US over trade, with the Community over farm policy, and with President Mitterrand over his constitutional position. But there is a deeper message, less exhilarating *for* the right, which should prompt them to adopt a cautious and even a conciliatory posture.

The case for caution is threefold: the conservatives do not really have a popular mandate for a hard-line right-wing programme; they have not offered any rapid solutions for the country's economic problems, starting with the apparently inexorable rise in unemployment; and the electorate will not thank them if they gratuitously rush into a dead-end political crisis with France's trading partners, or an unnecessary constitutional crisis at home.

The conservatives' popular base is more modest than their parliamentary majority would suggest. The collapse of the Socialist vote is almost wholly accounted for by the rise in the protest parties outside the governing mainstream, such as the extreme right-wing National Front and the ecologists. The conservatives' share of the ballot in the first round of this election – less than 40 per cent – was slightly *smaller* than in 1981, which must make it imprudent, therefore, *for* them to interpret a massive parliamentary majority as a massive popular mandate.

Popular alienation

This election thus confirms the existence of a *strong* under-current of popular alienation from the traditional parties of government, which first emerged in last year's regional elections. One factor is no doubt the Socialists' failure to stem the tide of unemployment; another is the tainting of the Socialist party by *systematic* involvement in corrupt financing practices. But the Socialists' fatal offence was to have succumbed to the arrogance of power.

Like the Gaullists before them, the Socialists have systematically monopolised the patronage of the state, supping deep from the privilege of presidential power, and becoming increasingly remote from ordinary people. This is a direct consequence of a system where the authority of the president has progressively overshadowed that of government and parliament. There is a clear need for a rebalancing of the system in favour of parliament, and the modest constitutional reforms proposed by President Mitterrand could be a useful move in that direction.

The conservatives' most acute dilemma is in economic policy. They subscribe to the same anti-inflationary objectives, and the same hard franc policy, as the Socialists. But there is an irreconcilable conflict in the short term between their need to bring down unemployment, and the deflationary effect of high German interest rates. They have promised a new initiative to accelerate Franco-German monetary co-operation. But if this fails to bring lower interest rates and the promise of faster growth, they will probably need to re-open the European debate on economic and monetary union.

Guiding principles

There is a danger that this dilemma will play into the hands of the populists and the anti-Europeans in the conservative coalition. In fact, the only sound general strategy *for* France is one centrally based on the European Community, on the liberal market economy, and on the key relationship with Germany.

The best guarantee that these will continue to be the guiding principles of French policy will be the appointment of a prime minister who is prudent, pragmatic and reasonable. Speculation has suggested that Mr Mitterrand will choose Mr Edouard Balladur, the former finance minister, who said last week that the new government should be "as open, as tolerant, and as respectful of others as possible". Mr Balladur is not the only plausible candidate; but that is exactly the style of government which France needs at this delicate, and potentially unstable, point in its political history.

Mickey Kantor talks to **Jurek Martin** and **Nancy Dunne** about his daunting agenda in pursuit of open markets

Trade apostle with his eye on the ball

Pride may come before a fall, but there is no denying that there is a certain cockiness to the Clinton administration these days. Congress has been tamed, the press charmed, Yeltsin is still there and visiting foreign dignitaries impressed – all if only for the moment.

More than that, a certain style has been established. It combines collegial, activist, legalistic, inquiring and practical elements. It takes its lead, indisputably, from President Bill Clinton himself but it is equally evident in other key members of his administration.

Sir Leon Brittan, the EC trade commissioner, will get a heightened sense of it this morning when he sits down with Mickey Kantor, the US trade repesentative, to work on a daunting agenda, of which EC procurement policy and temporarily suspended US sanctions against it is merely the most pressing. He will find on the opposite side of the table a man more assured and more comfortable with his brief than when they first met last month.

Mr Kantor, 53, born in Tennessee, where his family fought racial discrimination, but enamoured of his adopted California ("the closest we've got to a meritocracy"), a poverty and corporate lawyer who ran Mr Clinton's professional campaign *last year*, gets up early, wears braces, and has a subtle sense of humour.

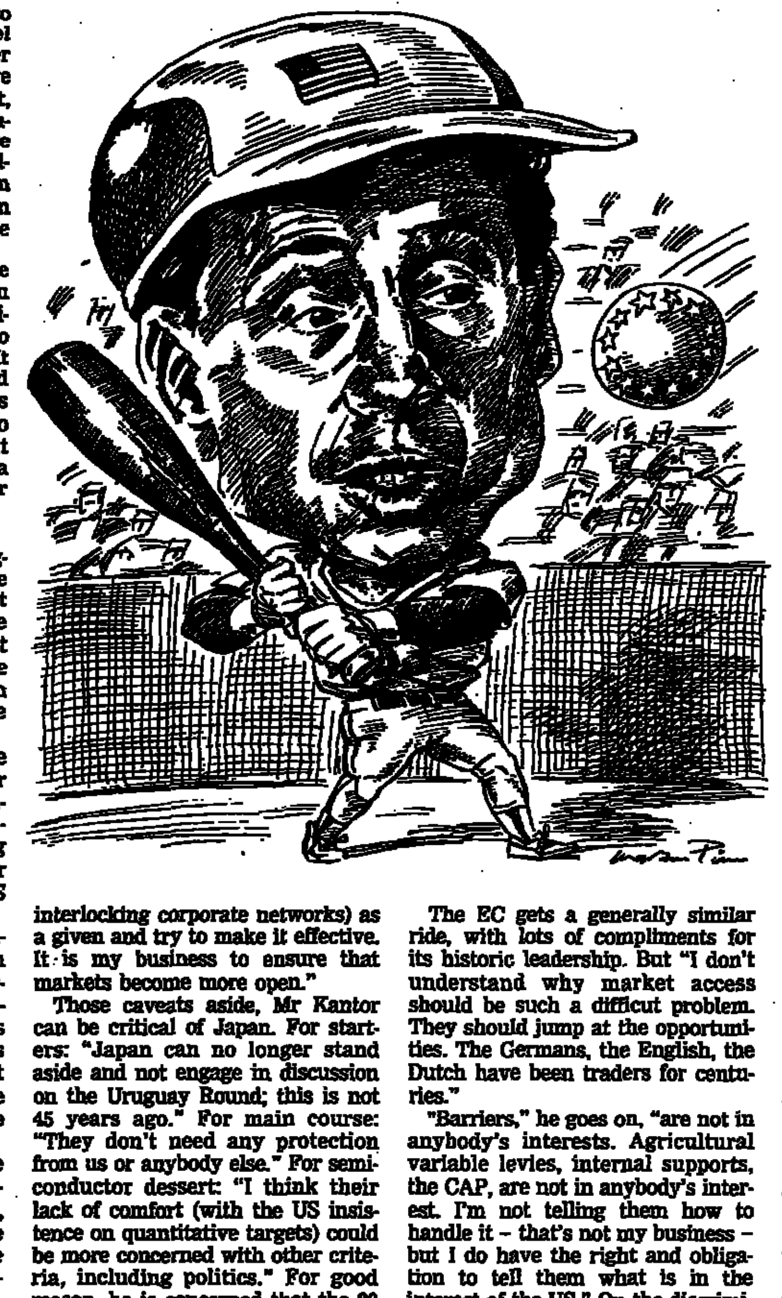
Though it may come as no help to Sir Leon, Mr Kantor is, like most sensible Americans, a baseball freak. Last week's breakfast bagel was *forgotten* in discussing the revived fortunes of Fernando Valenzuela, the pitcher who relies on guile not force, but the trade analogies are not.

"Velocity in pitching, like philosophy in trade," Mickey Kantor declares, "is vastly overrated. It's all about location and staying ahead of the batters, that's how you'll be successful. Its not complicated, just like trade is not complicated. There are simple principles to adhere to." (On his desk was a clipping from a Japanese newspaper showing Mr Yoshiro Mori, the trade minister whom Mr Kantor was to meet later, playing baseball.)

Yet when pressed if he cares more about ends than means, the lawyer demurs. "Once you sign an agreement it seems to me almost counter-intuitive, even dysfunctional not to live up to it." Nations have anti-dumping laws which, far from being necessarily skewed in favour of the plaintiff, exist "because there is a lot of dumping around".

However, laws, even in trade, are not, he goes on, set in concrete. "Change is the immutable law of politics and life. Change can be your friend." In perhaps a veiled invitation to the EC to come back to the table for a multilateral steel agreement, "if your trading partner comes to you and says he can't live up to the terms of an agreement, you can talk". Intensified negotiation, he argues, is what should have been done last year, possibly avoiding the US finding that European steel imports had been dumped in the US. "I'm always looking for the dog that doesn't bark."

If the rules of the game fascinate him, trade theology does not. "I'm not going to be caught in a theological debate that does not lead to practical and pragmatic results. It does not matter what you are called or how you are labelled, it matters what we get done. The idea is not to engage in endless debate about whether someone is a free trader, a protectionist, a managed trader or results oriented."



He makes just one dogmatic exception. The US "is the largest open market in the world, and it is not going to change and everyone knows that. The rhetoric thrown around is only for effect, lets be mature and grown up about that."

He is inclined, naturally, to be more tolerant of US rhetoric for domestic consumption ("the political factor"), such as his own president has used when discoursing about European Airbus subsidies or the presumed iniquity of low US tariffs on Japanese mini-vans.

He contrasts that, perhaps ingenuously, certainly defensively, with "when the EC talks about protectionism and unilateralism, whatever the heck that means, that is somehow supposed to embarrass us and persuade us to take action that is in the interest of the EC or the Japanese or whoever is making the charges".

But, he goes on, it would be "audacious" to try to make a country like Japan be just like the US, which was arguably a motive in the Structural Impediments Initiative approach to market-opening practised by the Bush administration. "It is not my business to tell them how to organise society. You take the *keiretsu* (the Japanese system of interlocking corporate networks) as a given and try to make it effective. It is my business to ensure that markets become more open."

Those caveats aside, Mr Kantor can be critical of Japan. For starters: "Japan can no longer stand aside and not engage in discussion on the Uruguay Round; this is not 45 years ago." For main course: "They don't need any protection from us or anybody else." For semiconductor dessert: "I think their lack of comfort (with the US insistence on quantitative targets) could be more concerned with other criteria, including politics." For good reason, he is concerned that the 20 per cent market-opening "goal" of the semiconductor agreement will not be met this year.

The EC gets a generally similar ride, with lots of compliments for its historic leadership. But "I don't understand why market access should be such a difficut problem. They should jump at the opportunities. The Germans, the English, the Dutch have been traders for centuries."

"Barriers," he goes on, "are not in anybody's interests. Agricultural variable levies, internal supports, the CAP, are not in anybody's interest. I'm not telling them how to handle it – that's not my business – but I do have the right and obligation to tell them what is in the interest of the US." On the discrimination of EC procurement policies, he says, more colloquially, "if I'm punching you, punching less does not matter".

Critics of the emerging US trade policy contend that too many officials punch too often and in inconsistent flurries, unlike the good old days when it was neatly compartmentalised between a handful of administration "experts" who believed, whatever they actually did, that trade should be free, and a Democratic-controlled Congress which played the protectionist foil.

Mr Kantor is an apostle of the horizontal approach to policy-making. Corporations and governments have found, he says, that it improves co-ordination. "Now, Treasury, State, Commerce, the National Economic Council, the National Security Council, USTR are constantly talking. There's a Tuesday morning meeting every week, horizontal discussions all the time. It takes a lot of discipline... but we talk so that we are all singing from the same hymn book." (This is a phrase in vogue in Washington: even Douglas Hurd, the British foreign secretary, was caught mouthing it here last week.)

It works, he contends, because the president himself is "completely engaged," reading memoranda all the time and knowing his brief as well as any of his officials. His respect for his boss, whom he first met in 1979 through Mrs Hillary Rodham Clinton, knows no bounds.

But if he takes his lead from Mr Clinton, he can argue his own way. "What appears from my studies and intuition is that the sum is greater than the parts. Exponential growth takes place from interaction between economies." But the benefits, in improved standards of living, must be widely spread at home and abroad.

He talks of extending the North American Free Trade Area southwards and then into co-operation with the Pacific basin, all with a view to creating "middle classes in the world". In this respect, his early career as a poverty lawyer, representing the lowest of the low, migrant farm labour in Florida and then California, was influential.

Referring to Cesar Chavez, the charismatic leader of farm labour in the 1960s and 1970s: "He profoundly affected my view of what needed to be done, how important it was to throw yourself into public issues and, now, how important Nafta is in harmonising upwards workers' standards".

But he has his own ideal of where those standards are most perfectly found. A modest traveller ("I didn't make much as a legal services lawyer") he has been to Europe "a few times" and to Israel. In his present job: "I'd love to hold every meeting in Florence."

Samuel Brittan

ECB very much on drawing board

Despite the clouds over the Maastricht treaty and European Monetary Union, preparations for establishing the new European Central Bank in Stage Three are going ahead. The treaty itself goes into detail about the constitution and responsibilities of the bank, but says little about how it will operate.

Forward thinking on these matters has, however, been taking place under the aegis of the EC Committee of Central Bank Governors, which has already set up a small staff of its own; the committee itself is likely to be taken over by the European Monetary Institute when the latter is established in January 1994 under Stage Two of Emu.

Further light on how the ECB might operate is shed by two members of the central bankers' staff, Carlo Monticelli and Jose Vinals in a paper entitled European Monetary Policy in Stage Three, soon to be published by the Centre for Economic Policy Research.

Monetary policy, we are usefully reminded, centres round the supply of "central bank money", which in UK parlance corresponds to bankers' balances at the Bank of England. This should be targeted according to the authors, not on any final objective, like a price index or Nominal GDP, but on some intermediate target, in practice, a measure of the money supply.

Discussion of the paper at a recent conference in Barcelona made clear that the only measures of money supply likely to be used were fairly broad ones covering a wide range of bank deposits, as well as cash, such as Britain's M4 or the German M3. A subsequent paper by the Bank of England's economic director, Mervyn King, has a chart hinting that the relation between the British M4 and inflation, which broke down in the early 1980s, might be about to re-establish itself.

One argument is that money supply targeting would provide some continuity with national central banks, several of which already target the money supply. Furthermore, money supply targets respond more quickly to policy than inflation itself and are easier to monitor, which would help to establish the credibility of the ECB in its vital early years. The successful pursuit of monetary targets might also exert a favourable influence on private sector expectations and behaviour, while the setting of ranges rather than joint targets should allow some flexibility for the new institution.

There must be an intermediate stage when the still-independent central banks work together

A more interesting argument, emphasised even more by Professor Ronald McKinnon of Stanford university, is that the relation of the European money supply to incomes and prices could well be more stable than that for existing national currencies, as substitution between them would cancel out.

The EC paper also suggests that there are limits to how far the implementation of monetary policies can be delegated to the component central banks. For instahce reserve requirements (virtually non-existent in the UK) would have to be harmonised. On the other hand, each national centre could maintain its own standing facilities with national banks.

However, conditions for the recognition of banks would have to be well harmonised to prevent the authorities in each national capital from trying to promote its own financial centre at the expense of others.

My own worry is how we get from here to there. It does not seem to me conceivable that up to, say, December 31 1998, the Bundesbank will decide its policies with sole reference to securing low inflation in Germany; and then on January 1 1999, the European Central Bank will take over with the different objective of stabilising European Community prices.

There must surely be an intermediate stage when the still-independent central banks work together with an eye to the European price level, and perhaps experiment with some measure of the European money supply.

Prof McKinnon has advocated a "common monetary standard" under which the core ERM countries would co-ordinate monetary policies to achieve zero inflation for a common producer price index. His aim is to rehabilitate the European exchange rate mechanism; but it would be equally appropriate as a prelude to full Emu, or as a way of maintaining exchange rate stability while keeping options open.

OBSERVER

Campaigners return

■ Debts of honour don't seem to be much recognised these days, let alone remembered after nigh half a century. All credit, then, to a group of British wrinklies preparing to return to northern Somalia, where they soldiered in the years just after the second world war.

The aim of the party, led by Anglo-Somali Society chairman Brigadier Malcolm Page, is at least partly to redeem what they see as the UK government's neglect of its obligations to former allies in the old British Somaliland Protectorate, now the self-proclaimed but unrecognised Somaliland Republic.

The debt is not just to the 1,000 or so Somali ex-servicemen and war widows remaining from 1939-45, says group member Cameron Morpeth, a retired stockbroker who served as a subaltern in the protectorate. The ties go back to the survivors' grandfathers who fought alongside British troops in Dervish campaigns at the turn of the century.

"We shouldn't leave this strongly British-oriented people to the vagaries of UN action. They haven't had a fair share of the aid given to southern Somalia," he adds.

So far Rimfire, a British company running mine-clearing operations, has offered to help him on arrival. Millride golf club raised £1,500, and the British Commonwealth Ex-Services League has promised small grants. "That will help some of the hardest hit, including war widows in a country devasted as a direct result of cold war rivalries," says Morpeth. "But we should do more."

Intertwined

■ Perhaps it should be called "The Beautiful and the Damned". According to vibes emanating from Los Angeles, narcissistic pop-star Michael Jackson is to join disgraced junk bond financier Michael Milken in a new cable TV network which will seemingly focus on "education and entertainment".

Don't rush to tune in, though. True, Milken has completed a two-year jail sentence after pleading guilty to six counts of securities fraud. But he has yet to perform 1,800 hours of community service in each of the next three years.

Head count

■ Whatever Britain may be short of, it is evidently not people with "an impressive track-record in senior management, knowledge of the property market and extensive experience in land regeneration or a related field".

Almost 200 such paragons – in their own view, at any rate – have applied to become the first chief executive of the government's new Urban Regeneration Agency.

'I suggest a half of the modest little house red since it's only a modest little upturn we're celebrating, sir'

Among so many, there may even be one be deemed worth more than the advertised salary of £90,000.

Charged with "unleashing the potential" of 150,000 acres of derelict and vacant land in England's towns and cities, the body will take over the work of English Estates, the government's industrial and commercial property developer, besides some of the grant programmes run by the environment department.

Since England's 11 Urban Development Corporations are mostly scheduled for scrapping before long, it seems likely that some of their chief executives are among the 200 contenders. Alas, those questioned on the point proved uncharacteristically shy.

Not so, however, the man already doing what is largely the job newly offered: Tony Pender, chief executive of English Estates for the past 14 years. "I'm naturally going to have a go at it," he said. As for having such hordes seeking to trample over him, "it's uncomfortable, but the discomfort was expected."

Cornered

■ Meanwhile the environment secretary Michael Howard has just received an invitation which presents him with a dilemma. Sent by Robin Smith – general manager of Copeland borough council in that remote corner of England, West Cumbria – it requests him to visit the town of Whitehaven.

If Howard turns up, he is sure to be lobbied for extra state aid for the area, not least because its road, rail and air links are inadequate. Yet if he cries off as he did when last invited, sending junior colleague Tony Baldry instead, he'll not only leave local citizens in no doubt that the government is snubbing them, but help to prove the point they're seeking to make.

Scheduled ministerial visits have also been called off by housing minister Sir George Young and board of trade president Michael Heseltine as well as Howard's other junior colleague Robin Squire.

"It underlines that we're the most remote travel-to-work area in England from Whitehall," says Smith. "Not only does that make it difficult for government ministers to get to us; it makes it difficult for businessmen too."

Weighty question

■ Last week's Washington trip by Helmut Kohl has complicated matters for his staff in Germany. Some of them have wagered that their chancellor will be 14 kilos lighter on returning from his annual visit to an Austrian spa, due to begin on Wednesday.

But now he has been to the US, the decisive question is not how much he will weigh after the spa holiday, but the weight at which he'll start it.

Suspicions that he increased his bulk while in Washington are strengthened by onlookers' impressions that he was there not so much to meet the new US president as to renew his own acquaintance with a favourite restaurant: Filomena's in Georgetown. Certainly, hobnobbing before a White House meeting on Friday, he could talk of little else.

As a result Bill Clinton, who has proved himself more than a McDonalds man with recent appearances in several of Washington's trendier restaurants, added Filomena's to his list.

He might have done better to note the address of the spa.

FINANCIAL TIMES
Monday March 29 1993

UN aid convoy reaches besieged town as Bosnian ceasefire holds

By Laura Silber in Belgrade and Robert Mauthner in London

A CEASEFIRE from noon yesterday agreed by Bosnia's three warring parties appeared to be holding last night, as a long-delayed United Nations relief convoy reached a besieged town in eastern Bosnia.

On Saturday the convoy, destined for Srebrenica where 60,000 people are desperate for food and medical aid, was stopped from crossing into Bosnia by local Serbs. This was in spite of an undertaking by General Ratko Mladic, the Bosnian Serb army commander.

Hopes rose yesterday that it would at last get through when it was cleared by Bosnian Serbs at the border town of Mali Zvornik, and its arrival at Srebrenica was reported by the UN last night.

The uncertain situation on the ground in Bosnia was matched by the equally fragile state of the peace negotiations in New York, following the signature last week of important elements of the internationally brokered peace plan by Mr Alija Izetbegovic, the Bosnian president.

Mr Izetbegovic said at the weekend that the Bosnian Serbs – the only ones not to have signed the plan put forward by the international mediators, Mr Cyrus Vance and Lord Owen – had between 10 and 15 days to endorse it. If they did not accept it by that deadline, he would consider his own signature invalid.

However, Lord Owen said in a US television interview yesterday that a 10 to 15-day deadline was "too early" to secure the Bosnian Serbs' signature. Mr Izetbegovic had not mentioned such an ultimatum to him when he signed the agreement in New York last week.

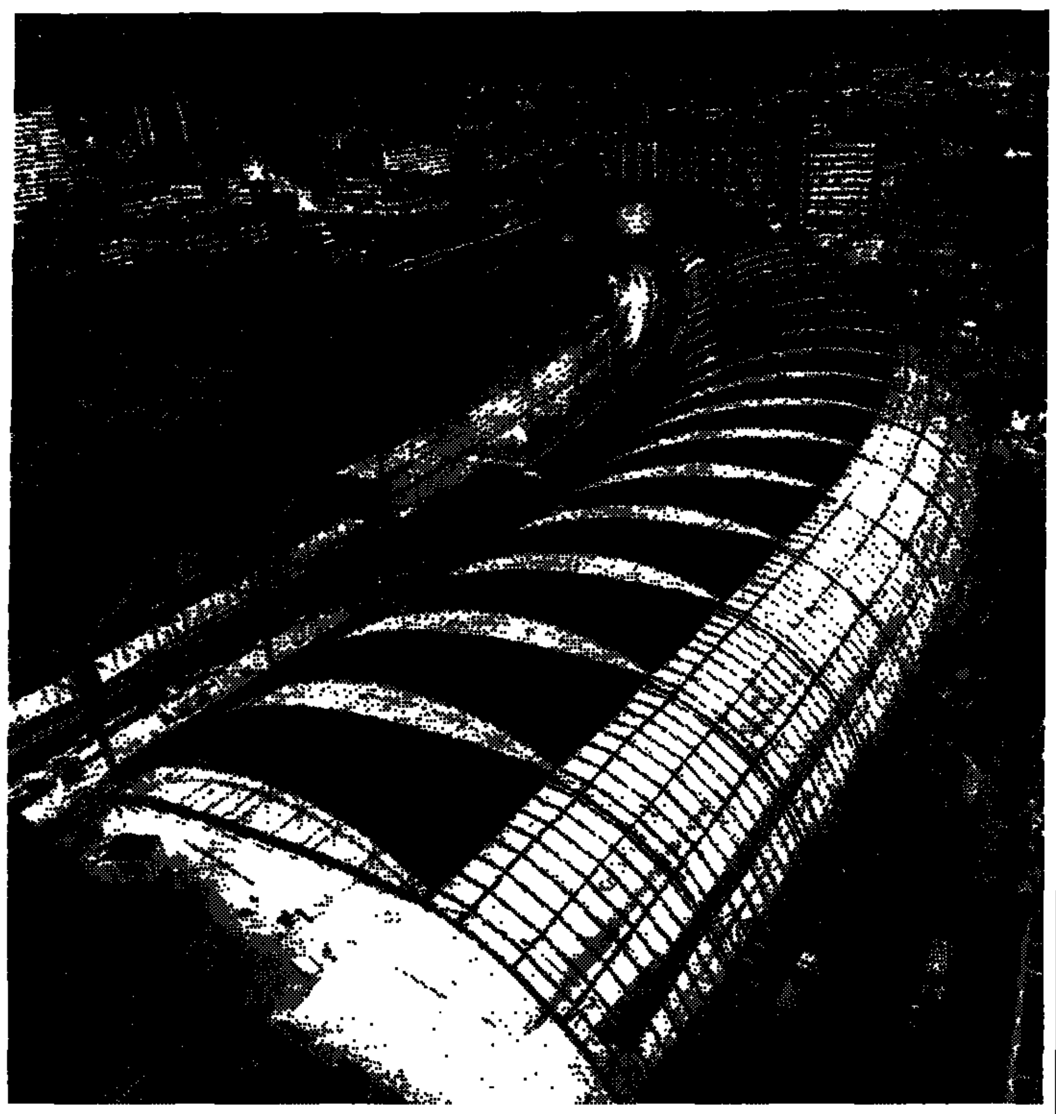
It is nevertheless possible that the Bosnian Serbs will give their verdict within a short time. Mr Radovan Karadzic, the Bosnian Serb leader, said the parliament of his self-styled republic would vote on the Vance-Owen plan within the next 10 days.

Meanwhile, France has become the first country to join the US operation to parachute relief supplies to besieged towns in eastern Bosnia, which land convoys have been unable to reach. A French C-160 cargo aircraft accompanied four US cargo aircraft on Saturday night to drop 30 tonnes of food and 600 kg of medical supplies to the mainly Moslem inhabitants of Gorazde.

But Germany, which had intended to join the US relief flights, has remained on the sidelines, following a threat by the Bosnian Serbs to shoot down aircraft of any flights in which Germans participated.

The Bosnian Serbs are still bitter about Germany's occupation of Yugoslavia during the second world war, and also blame Bonn for what they consider the European Community's premature recognition of Croatia and Slovenia, thus precipitating the break-up of Yugoslavia.

In the Croatian capital of Zagreb, Mr Izetbegovic said yesterday that he and President Franjo Tudjman of Croatia had agreed to set up a joint Croat-Moslem army command in Bosnia. The country's Moslems and Croats are formally allied against the Bosnian Serbs, but have fought fierce battles against each other in several regions.



Ashley Ashwood
Not so bright future: the lights go on at London's nearly completed Waterloo international rail terminal

New UK rail terminal may be obsolete after six years

By Richard Tomkins, Transport Correspondent in London

THE £130m ($185m) international rail terminal being built at London's Waterloo station, Britain's biggest station project since the last century, could become redundant six years after it opens if the Channel tunnel rail link is built as planned.

Union Railways – a subsidiary of British Rail, the state-run railway – is in charge of the Channel tunnel rail link. It has acknowledged that its plans assume most or all international train services will switch to a new terminal at London's St Pancras or King's Cross stations when the link opens around the end of the decade.

A small number of trains may continue to run into Waterloo to see if any demand remains, but most passengers are expected to prefer the St Pancras or King's Cross terminal because it will offer a faster journey time and better connections with BR and London Underground services.

Waterloo International station, now nearing completion, has been acclaimed for its architectural design. Its five platforms, each a quarter-of-a-mile long, are covered with a canopy incorporating 2½ acres of glass, 2 acres of stainless steel cladding and 1,000 tonnes of steelwork.

For the first few years of Channel tunnel operations, while continental trains are running along existing tracks between London and the coast, the station will be the sole London terminus for international expresses.

At the time the station was planned, it was expected that the new high-speed link connecting London with the tunnel would approach London from the south and make equal use of Waterloo and a second terminal to be built at King's Cross. But those plans have been overtaken by the drastically revised route published last week by the government, which approaches London from the east.

Under the new plans, trains using the high-speed link will only be able to reach Waterloo by turning off the line near Gravesend in Kent and reverting to congested tracks for the last 22 miles. This means the journey to Waterloo will take 17 minutes longer than the journey to St Pancras or King's Cross, even if the trains have a clear path.

Mr John Prideaux, Union Railways' chairman, said it was inevitable that Waterloo would be the loser once the eastern approach to the capital had been chosen. Mr Prideaux said: "We would not say that we will not take any trains there, but there will be a preference for the majority to go to King's Cross or St Pancras because it will be quicker."

A limited train service could provide only a temporary respite from closure for Waterloo's international terminal because traffic levels would be too low to justify the continued operation of the airport-style building with its arrival and immigration halls, customs facilities and departure lounges.

Freight wagons unveiled, Page 7
Too many bodies, Page 12

US-EC in talks to avert trade sanctions

By David Dodwell, World Trade Editor, in London

SENIOR US and European Community trade officials hold critical talks in Brussels today aimed at averting US sanctions over EC government purchasing policies, and at restoring momentum to stalled negotiations on global trade liberalisation.

The most urgent task facing Sir Leon Brittan, the EC's trade commissioner, and US trade representative Mickey Kantor will be to find a compromise in a dispute over government contracts.

At the centre of the disagreement is an EC rule that Washington believes gives unfair preference to Community companies in winning public contracts. A US threat of sanctions affecting about $45m-$50m of EC goods was put on hold following talks in Washington last week between President Bill Clinton and Mr Jacques Delors, EC president.

US officials have warned that sanctions will go ahead later this week if Sir Leon and Mr Kantor fail to reach compromise. The row could rapidly escalate, as the EC says it is ready to retaliate.

The talks coincide with figures published today by the General Agreement on Tariffs and Trade that show world trade grew by 5.5 per cent to $3,700bn last year, reversing four years of slowdown.

Gatt officials are calling for fresh efforts to be made to conclude the Uruguay Round of talks on world trade liberalisation at a time when "trade has been a source of relative strength in an otherwise mostly weak economic environment".

Both the EC and the US say they are keen to use the meeting between Sir Leon and Mr Kantor to revive the Uruguay Round. Today's talks are expected to be confined to charting a route towards a market access package under which the EC would lower tariffs on electronics products, non-ferrous metals and paper and wood products. The US in turn is being pressed to cut high tariffs on textiles, ceramics and glass products.

A wide-ranging review of US trade policy is still in progress in Washington, making definitive US statements unlikely this week.

Mr Kantor signalled to EC negotiators in an interview with the FT that while trade politics fascinate him, trade theology does not. "I'm not going to be caught in a theological debate that does not lead to practical and pragmatic results," he said.

"It does not matter what you are called or how you are labelled, it matters what we get done. The idea is not to engage in endless debate about whether someone is a free trader, a protectionist, a managed trader or results oriented," Mr Kantor said. He added that the US "is the largest open market in the world, and it is not going to change and everyone knows that".

Gatt world trade report, Page 6
US dumping inquiry, Page 6
Kantor interview, Page 13

THE LEX COLUMN

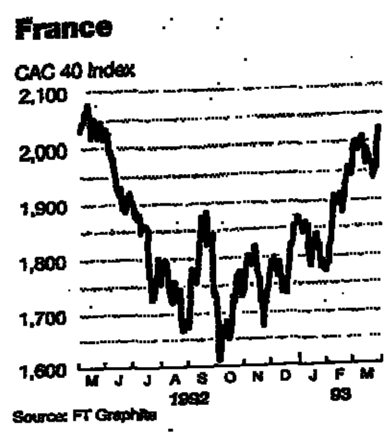
High street demolition

Kingfisher's results last week showed clearly how the new accounting standards will cut retailers' profits. Until now companies were able to revalue properties in their balance sheets, and they could also count the full difference between the original purchase price and the disposal price as a profit. Companies conveniently did well both ways. Property revaluations strengthened the balance sheet while disposal gains flattered the profit and loss account.

Now profits – or losses – are measured on the difference between carrying cost in the balance sheet and sale price. For Kingfisher the change turned a profit of £20.6m on property in 1991-92 into a loss of £11.4m. The problem particularly affects groups with large long-standing property holdings. Woolworth's high street stores and Sears' shoe shops are good examples. Indeed, Sears is the retailer most affected by the change. It realised property gains of £92m in 1991 and 1992 – some 40 per cent of reported profits. Those profits will be substantially lower when restated on the new basis. Sears' decision to cut its dividend last year thus looks to have been all the more inevitable given that the payment was not even covered before the change.

Large investors have in the main stripped out such profits from their calculations. Smaller investors may be more shocked by the change – however much companies try to pretend that it is merely technical. Other sectors may also be in for a surprise. The brewing and leisure sectors have similar property portfolios, yet the full significance of the change does not yet appear to have sunk in.

France



Source: FT Graphite

The perversity of stock markets is a wonderful thing. With the economic news from France worsening by the day, the CAC-40 index last week surged through the 2,000 barrier, adding the gloss to an 8 per cent rise since the start of the year. Yesterday's elections were the proximate cause; the anticipation of interest rate cuts the broader justification.

The tide of euphoria surrounding the incoming market-friendly government looks likely to last a while. The CAC's all-time high of 2,129 may yet be breached this year with the conservatives keen to show they can make a better fist of the economy than the socialists. The government's privatisation programme could raise more than FFr20bn (£2.5bn) this year to fund a spot of reflation. The commitment to the *franc fort* should remain solid. Nevertheless, France's fine inflation record could permit interest rates to fall from 11 per cent to 6 per cent by the year-end.

Much depends, though, on the speed with which German interest rates drop. If the Bundesbank moves too slowly, high interest rates will inflict real damage on the French economy. Economic growth is stalling. The recent dismal stream of corporate news suggests earnings and dividends will come under severe pressure. The strong franc has thrown grit into France's export machine. The equity market is gambling that, if the Bundesbank proves too grudging, the *franc fort* policy will face the guillotine.

ECGD

The increased export credit cover and lower premiums promised in the budget brought qualified approval from industry. Although ECGD's average premiums have been cut, affordable cover will not necessarily be available for markets of particular interest to exporters such as China. But it does look as though the regime has become more relaxed. The broader fear is that this may ultimately lead to a rerun of the large losses which plagued ECGD during the 1980s and from which it is only just recovering.

ECGD's obligation to provide medium-term project cover forces it to take on large single risks for which no reinsurance cover exists. Like other national export credit agencies it suffers from a concentration of risks. By contrast, commercial companies automatically reinsure.

There is an opportunity here for the EC. It could establish a European export credit reinsurance market which would help put national agencies on a sounder footing. The stock objection – that one country's taxpayers would simply end up covering losses incurred by another's exporters – is short-sighted. Assuming a degree of critical mass, such a market would set a benchmark for premiums which would make it hard for national agencies to undercut each other. The unfair competition which British exporters claim to have faced from low-premium countries like France would disappear. Decisions to extend cover might become more disciplined.

Unfortunately the chances of such a radical approach look slim. The UK government's reluctance to extend its own top-up reinsurance facility for the privatised part of ECGD suggests it has little appreciation of the reinsurance issue. As long as that remains true, exporters should expect the export credit tap to be turned off again once the losses start to mount.

Index-linked gilts

In theory, index-linked gilts should have been a beneficiary of the budget. The lower tax credit on dividends which has reduced the yield on equities does not affect gilts. The yield on index-linked gilts, which are perhaps best viewed as a surrogate equity rather than a bond, has thus become more attractive relative to shares. Over time this could lead institutions to devote more of their cash-flow to the index-linked market. But there is unlikely to be a rush.

One problem is that running yields on index-linked gilts are still too low to attract yield-conscious investors in equities. Another is that even those who believe that devaluation and the government's economic problems will eventually rekindle inflation also have to worry about real yields in the short run. On this matter index-linked gilts take their lead from the conventional market. And this market is again worried about supply.

Then there is the structural problem of liquidity. Extra sales have increased the size of the index-linked market by more than £5bn in the current financial year. That amounts to an expansion of some 40 per cent, but there is still no real trading liquidity. So buyers of index-linked may face punitive dealing costs if they want to sell. The worry is that the market may never become liquid whatever its size. The high cost of carry makes index-linked unattractive to market makers.

Fresh probe into politicians' Mafia links

Continued from Page 1

scandals, and even if parliament decides there are insufficient grounds to waive his immunity he will find it hard to recover his key role as the master behind-the-scenes manipulator of Italian politics.

● Over the weekend, the Amato government announced the composition of the board of Eni, the state oil concern whose chairman and heads of four main subsidiaries have been arrested in corruption scandals. The new board of six has Mr Franco Bernabe continuing as chief executive and Mr Luigi Meanti, a former managing director of the Eni subsidiary Snam, as chairman. The board members are all technocrats instead of political appointees for the first time.

World Weather

		°C	°F
Ajaccio	S	13	55
Algiers	S	21	70
Amsterdam	S	7	45
Athens	F	16	61
Bahrain	S	23	73
Bangkok	F	35	95
Barcelona	F	14	57
Beijing	S	16	61
Beirut	S	26	79
Belfast	F	9	48
Belgrade	F	1	34
Berlin	C	4	39
Bermuda	F	21	70
Bombay	S	30	86
Bordeaux	S	14	57

		°C	°F
Boulogne	S	8	46
Brussels	S	7	45
Budapest	R	2	36
Buenos Aires	F	31	88
Cairo	S	25	77
Cape Town	S	27	81
Caracas	F	32	90
Casablanca †	F	17	63
Chicago †	Fg	-1	30
Cologne	S	6	43
Copenhagen	F	4	39
Corfu	F	11	52
Dallas †	R	17	63
Dublin	F	9	48
Dubrovnik	C	7	45
Edinburgh	C	7	45
Faro	S	21	70
Florence	S	9	48

		°C	°F
Frankfurt	F	4	39
Geneva	S	4	39
Gibraltar	F	18	64
Glasgow	F	9	48
Helsinki	Sn	1	34
Hong Kong	F	27	81
Innsbruck	C	-1	30
Inverness	F	9	48
Islamabad	F	22	72
Istanbul	S	14	57
Jakarta	R	32	90
Johannesburg	F	25	77
Lisbon	F	14	57
London	C	9	48
Los Angeles †	C	10	60
Luxembourg	S	5	41
Madeira	C	16	61
Madrid	S	16	61

		°C	°F
Majorca	S	17	63
Malaga	C	17	63
Malta	S	14	57
Manila	C	34	93
Melbourne	F	20	68
Mexico City	F	27	80
Miami †	F	18	66
Milan	S	11	52
Montreal †	S	2	36
Moscow	C	3	37
Munich	Sn	0	32
Nairobi		-	-
Naples	F	11	52
Nassau	C	30	86
New Delhi	S	24	75
New York †	C	7	45
Nice	F	13	55
Nicosia	F	20	68

		°C	°F
Oporto	F	14	57
Oslo	S	4	39
Paris	S	9	48
Prague	C	1	34
Reykjavik	F	5	41
Rhodes	F	17	63
Rio d'Janeiro	C	35	95
Rome	S	11	52
Salzburg	F	1	34
S'Francisco †	C	10	60
Seoul	F	14	57
Singapore	F	31	88
Stockholm	Sn	2	36
Strasbourg	F	5	41
Sydney	F	23	73
Taipei	C	25	77
Tangier	F	17	63
Tel Aviv	S	31	88

		°C	°F
Tenerife	F	20	68
Tokyo	R	10	50
Toronto †	F	2	36
Tunis	F	15	59
Valencia	S	20	68
Venice	S	10	50
Vienna	Sn	-1	30
Warsaw	Sn	1	34
Washington †	Dr	11	52
Zurich	F	3	37

Temperatures at midday yesterday
† Noon GMT temperatures
C-Cloudy Dr-Drizzle
F-Fair Fg-Fog H-Hail
R-Rain S-Sunny
Sl-Sleet Sn-Snow
T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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News Corp seeks $3bn and The Post

By Alan Friedman in New York

MR RUPERT Murdoch's News Corporation is seeking a $3bn revolving loan from a group of 30 to 40 international banks to help refinance outstanding debts at lower interest rates.

Although terms of the deal, believed to have a maturity of more than five years, were not available, it is understood that Citibank of the US and Midland of the UK are among the lead banks involved.

The $3bn refinancing is the latest step in the restructuring of News Corp's debt. In late 1990, News Corp was facing severe financial problems with debts of more than $7.6bn. News Corp was forced into lengthy negotiations with nearly 150 lending banks and after months of talks, it was agreed that about $7.6bn of debt would be restructured over three years.

Separately, Mr Murdoch is expected this morning to make a formal proposal in a New York bankruptcy court to take control of The New York Post, the bankrupt tabloid newspaper facing management disarray and a severe cash crunch.

Mr Murdoch, who lost an estimated $150m when he last owned the newspaper between 1976 and 1988, on Friday evening held a three-hour meeting with Mr Abe Hirschfeld, the car parks magnate who has controlled The Post since March 12. It is believed the two reached an informal agreement under which Mr Hirschfeld said he would not oppose Mr Murdoch's offer at today's court hearing.

The offer will involve Mr Murdoch providing operating capital and taking control of the paper for the next 60 to 90 days, pending the approval from the Federal Communications Commission (FCC) of a request to waive rules that normally prevent cross-ownership of both a newspaper and a television station in one city. The FCC rules caused Mr Murdoch to sell The Post in 1988 because he also controlled a New York TV station.

If today's court hearing goes well Mr Murdoch could obtain operating control of the newspaper from as early as tomorrow. He already has the support of Mr Mario Cuomo, New York governor, and the paper's editorial staff, creditors and managers – many of whom have been angered by the behaviour of Mr Hirschfeld.

Mr Murdoch's costs over the next 60 days may reach $8m and he would then have to provide a plan to bring The Post out of Chapter 11 bankruptcy protection.

Paul Betts explains why a group of smaller airlines are talking about partnership

Co-operating to survive in a global market

Mr Jan Carlzon, the chief executive of Scandinavian Airlines System (SAS), describes the current flurry of mergers and partnerships in the airline business as the ketchup bottle effect: "You shake and shake the bottle and nothing seems to happen until it all comes pouring out at once."

For the past eight years, the SAS boss has been one of the most consistent and ardent proponents of transnational co-operation to enable smaller and medium-sized airlines like SAS to compete against the larger European, American and Asian carriers in an increasingly deregulated and global industry.

He is now in the throes of complex partnership discussions with three other medium-sized European carriers – Swissair, KLM Royal Dutch Airlines and Austrian Airlines – to try to establish a "fourth force" in the European airline market to compete against the big three – British Airways, Air France and Lufthansa of Germany.

If successful, the current talks could ultimately lead to a merger of the four carriers which combined would be larger than BA, Air France or Lufthansa. It would have a fleet of around 270 aircraft, employ more than 80,000 people, and carry around 30m passengers a year.

The four carriers have already established 16 working parties to study how they could work more closely together by creating a multi-hub traffic system based around Amsterdam, Copenhagen, Geneva and Vienna; integrating their fleets and future aircraft purchasing policies; combining frequent flier programmes; rationalising their structures and cutting costs by setting up, for example, one head office instead of four.

One working paper leaked last week goes as far as proposing a full merger with a joint company controlling four separate operating arms with aircraft flying under the same logo and common colours.

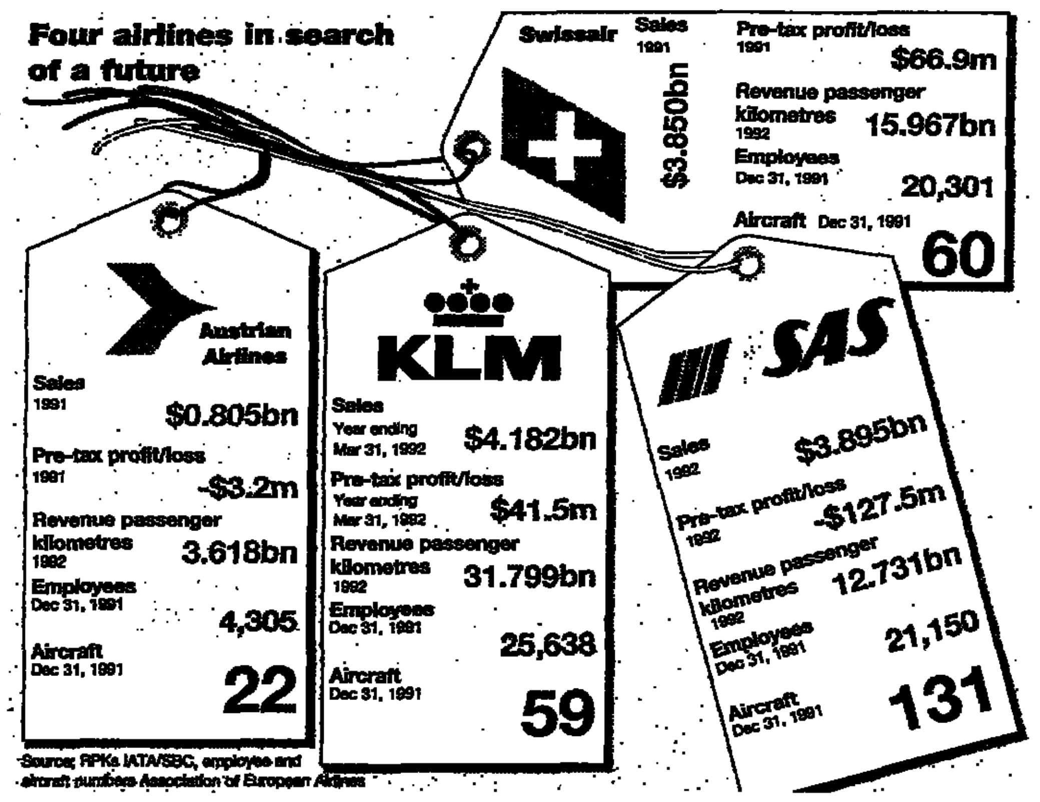
The four airlines insist that nothing has yet been decided and that a wide range of proposals are still under consideration. The conclusions of the different studies are to be submitted to the heads of the four airlines next month. By the end of June, they are expected to take a decision.

"What is clear is that the four airlines want to move quickly", said one party to the talks.

The convoluted ownership structure of the airlines, especially SAS in which the Swedish, Danish and Norwegian governments all own stakes, is likely to complicate merger plans. The unions and some vocal sections of government are also expected to resist radical merger proposals to protect employment and defend national pride.

But there are compelling reasons for the four airlines to gang together. All four share common problems as well as similar strategies. Their domestic markets are too small to support a strong international airline. For this reason, they have all long branched out to forge links with carriers around the globe to operate viable traffic networks.

SAS has developed links with Continental in the US, Lan Chile in South America, Thai in south east Asia, ANA in Japan. In the UK it owns 25 per cent of Airlines of Britain which operates the regional carrier British Midland.



Source: RPKs IATA/SBC, employee and aircraft numbers Association of European Airlines

Swissair has cross-equity partnerships with Singapore Airlines and Delta in the US. KLM holds a stake in Northwest Airlines of the US, has a long standing relationship with Garuda of Indonesia and a stake in the British regional carrier Air UK. Swissair and ANA both have minority stakes in Austrian, the smallest and weakest of the four.

As an initial response to growing competition in Europe and the emergence of so-called "mega carriers" in the US and Asia, SAS, Swissair and Austrian formed four years ago what they termed the European Quality Alliance. Originally, the three airlines envisaged swapping stakes, but this proved too difficult because of the complex SAS ownership structure. However, the partnership has slowly started to bear fruits.

The three carriers co-ordinated last year the launch of new services to eastern Europe. Swissair and Austrian have combined marketing forces in their domestic markets. SAS has been marketing its African and South American traffic through Swissair. Some co-ordination in the use of equipment has already taken place.

Early on, SAS also sought to attract KLM to the table. But the talks were interrupted two years ago when the Dutch carrier decided to enter into merger negotiations with BA. The dialogue was renewed after the BA-KLM talks collapsed largely on the issue of control.

It has since gathered pace with the advent this year of the new single European aviation market and the industry's financial troubles due to recession. These combined pressures have, in turn, intensified the trend towards greater consolidation.

In Britain, BA bought stakes in USAir, Qantas in Australia and in two small regional carriers in Europe. Meanwhile, Air France has taken control of Air Inter, the French domestic carrier, and UTA, the independent French long-haul airline, as well as buying stakes in Sabena of Belgium and CSA of Czechoslovakia. Lufthansa is also scouting for partnership opportunities while it aggressively restructures itself.

Time is running out for Europe's medium-sized carriers.

However, a merger could take some time. After all, it took five years to find the proper corporate structure for SAS before the airline was created from the separate Swedish, Norwegian and Danish international airline operations in 1951.

But as one executive close to the current talks said: "That does not mean we cannot agree quickly to have the benefits of a merger without actually having a merger."

Rivals emphasise doubts at IBM

By Lousie Kehoe in San Francisco

IBM's competitors moved swiftly over the weekend to capitalise on uncertainty created inside and outside the world's largest computer maker by the appointment as chief executive of Mr Louis Gerstner, a man with no computer industry experience.

Choosing Mr Gerstner, who joins IBM on Thursday from RJR Nabisco, the food and tobacco group, was a bold but risky way for IBM's board to try to revitalise the company, many computer executives and analysts said.

Questions about IBM's technology and product strategies will pile up while Mr Gerstner gets to grips with the company, they added.

"The customer is saying, holy mackerel, why should I buy any more from IBM until this guy figures out what he is doing?" said Mr Scott McNealy, chief executive of Sun Microsystems, the leading computer workstation manufacturer.

Computer buyers realise that Mr Gerstner is likely to eliminate some products as he streamlines IBM, but they don't know which ones, he explains.

The fear of buying IBM products that will soon be obsolete "gives Sun's sales people a really nice run at the IBM customer base".

If IBM's customers are worried, its employees are living in fear and dread of the "axe man", a reputation Mr Gerstner brings with him from RJR Nabisco, where he lopped the workforce and sold off assets.

Wall Street analysts expect Mr Gerstner to accelerate the "downsizing" of IBM by cutting up to 100,000 people from the company's 300,000 payroll.

Among computer experts, another source of concern is Mr Gerstner's lack of prior experience in the computer industry.

Others see Mr Gerstner's lack of computer industry experience as a positive advantage because he will be forced to rely upon the advice of others, pushing responsibility down the ranks.

But that raises questions about who Mr Gerstner will choose as his top advisers.

"The management team he builds is much more important than what he knows about mips and flops," said Mr Regis McKenna, an industry consultant.

"Making IBM faster on its feet is going to be the key challenge."

IBM's wish-list, Page 10

INSIDE

Vestey meat group seeks shareholder

Weddel New Zealand, the meat company owned by the Vestey family of the UK though their Union International group, plans big shareholding changes including searching for a new large shareholder. This follows a decision by the Vesteys to sell assets to restructure. Mr John Prendergast, Weddel managing director, said the family planned to sell about 50 per cent of the company, the fourth largest in New Zealand. Page 17

Gilts market upsets forecasts

Recent events in the gilts market have underlined the pitfalls of peering into the future. Even though last week yields for most classes of gilts moved up ahead of this week's biggest-ever gilt auction, the market has performed far better in recent months than most people in the Treasury and the Bank of England appear to have expected it would do following the exit from the ERM. Page 18

New bond issues set record

New issues in the international bond market reached a record high in the first quarter, reflecting a favourable environment of falling interest rates and an increase in funding requirements, especially from sovereign borrowers. Page 19

Renown posts loss

Renown, Japan's largest clothing maker which owns upmarket UK retailer Aquascutum, posted continuing losses for the six months to the end of January due mainly to sluggish sales of women's wear. Page 17

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.5 according to IBES, the consensus estimates service (Last week: 14.7). This compares with an IBES estimated p/e for the "500" of 18.0 (18.2) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 17.91 (18.22).

Market Statistics

Companies in this issue

UK is back on track with a monetary policy

Economics Notebook
By Peter Norman

It has taken six months. But Britain now has a comprehensive monetary policy to replace sterling's membership of the European exchange rate mechanism.

The final touches were provided by Mr Norman Lamont, the chancellor, in his Budget. The logic behind the policy was fleshed out by Mr Mervyn King, the Bank of England's chief economist, at a seminar in London last week.

The chancellor devoted only six paragraphs of his 1 hour 51 minute Budget speech to monetary policy. The two innovations contained in the paragraphs disappointed monetarists and appeared to mark a dilution of the government's previous stance.

M0, the narrow measure of money supply, which had been targeted by the government since 1984, is now subject to a "monitoring range". If growth of M0, which consists mainly of notes and coins in circulation, strays outside the 0 to 4 per cent range during the period of the government's medium-term financial strategy to 1997-98, it will be "likely to be a cause for concern".

The existing monitoring range for annual growth of M4, the broad measure of money supply which also embraces bank and building society deposits, was modifed to 3 to 9 per cent from the 4 to 8 per cent set last November for the period to the end of March. The M4 monitoring range will also apply for the full life of the MTFS and movements of broad money outside its bands should sound a warning to the government.

The purpose of monetary policy is to achieve low inflation. Shortly after leaving the ERM, the government announced an explicit inflation target of keeping underlying inflation, measured by the retail prices index minus mortgage interest payments, in a 1 to 4 per cent range over the life of this parliament.

This inflation target is now at the centre of the government's anti-inflation strategy. According to the Treasury "Red Book" published on Budget day, the interest-rate decisions needed to keep inflation in the target range will be based on a continuing assessment of monetary conditions, measured mainly by the growth of M0 and M4, as well as movement of the exchange rate and asset prices. While there are no targets or monitoring ranges for sterling or asset values, sharp movements in these indicators would also trigger official concern.

These four indicators are therefore the main determinants of interest rates in the UK. Although the framework for policy decisions falls short of the simple triggers beloved by financial markets, UK monetary policy should be more predictable than previously. Interest-rate decisions will still be based on judgment but not driven wholly by the seat of the pants.

But what are we to make of the Budget innovations of the new monitoring range for M0 and the broader monitoring range for M4?

M0's annual growth rate has been higher than 4 per cent since February, while M4 growth, at just over 3 per cent in recent months, has been below the lower limit of the old monitoring range. A cynic might suppose that the ranges were modified in the Budget to accommodate these two wayward indicators.

The Treasury's feeble explanation that it had widened its monitoring range to 6 from 4 percentage points "because it now applies to a longer period" might excite such suspicions in the case of M4.

But there is a sound intellectual reason for abandoning the M0 target. So long as underlying inflation is targeted, it is illogical and impractical to have an intermediate target as well.

Moreover, the Treasury believes that M0 may be subject to special factors that might justify a more relaxed attitude to its recent rapid growth. The Treasury's monthly monetary report in February said that low interest rates could be encouraging higher cash holdings, so fuelling the growth of M0.

A more esoteric explanation was provided in the Red Book. It says the growth of velocity of circulation of M0 has slowed in recent years and was close to zero in 1992-93. If this trend persists, M0 could grow at a higher rate than the 4 per cent upper limit of its monitoring range without indicating any resurgence of inflationary pressures in the economy.

So much for the policy framework. But the best designed monetary policy is of little use if it lacks credibility.

It is here that the UK authorities have a problem. In February, the Bank of England noted that expectations of inflation had not yet adjusted to levels compatible with the 1 to 4 per cent target range for inflation.

The message was hammered home last week by Mr King. He pointed out that long-term interest rates in Britain, at 7.8 per cent, were higher than Germany's 6.6 per cent and France's 7.4 per cent. Although British inflation is currently below German levels, the difference in long-term rates suggests that monetary policy in Germany enjoys more credibility than in the UK.

The new monetary policy has some institutional trappings for boosting credibility in which the Bank sets much store. One is its quarterly inflation report, which according to Mr King, will be a "visible demonstration" of the Bank's "resolve to signal when remedial policy action" such as higher interest rates is required.

Another is the specific mandate given to Mr Eddie George when he was appointed the next governor of the Bank. Mr George, who takes over on July 1, has been told that "his central responsibility should be to support the government in its determination to bring about a lasting reduction in the rate of inflation".

But ultimately, it will be the actions of the UK authorities and their ability to keep inflation within the prescribed target band that will determine whether the new monetary policy gains the credibility it currently lacks.

This will take time. At the very least, Mr Lamont will have to avoid changing interest rates for purely political reasons, as was the case last October when interest rates fell in response to the pit closure crisis, or in conditions of muddle, as happened on January 26 when base rates were reduced to their present 6 per cent level.

Glaxo to withdraw claims for Zantac

By John Authers in London

GLAXO Holdings, Europe's largest pharmaceuticals company, has agreed to demands by the US Food and Drug Administration that it withdraws some promotional claims about its ulcer treatment drug Zantac.

In January this year, the FDA said Glaxo "frequently suggests unapproved uses for Zantac and consistently makes comparative efficacy and safety claims that are not supported by adequate data".

Glaxo stopped publishing the contested claims in advertising and promotional literature earlier this month, but objected to the FDA's claims and said it was unlikely to write to US doctors.

The company it has agreed with the FDA on the content of a letter to be sent to doctors in the US, correcting its standard literature.

Discussions continue on how Glaxo's retractions should be published.

Zantac is the world's best-selling medicine with annual sales of about £2bn ($2.84bn), representing 45 per cent of Glaxo's turnover. Annual US sales are estimated by analysts at $1.4bn.

An analyst said: "This makes it harder for Glaxo to differentiate Zantac from Tagamet. When there is a cheaper generic version of Tagamet on the market in the US next year it may be harder for Zantac to maintain market share."

The company stressed yesterday that its right to distribute the drug in the US had never been questioned.

EFM Dragon success in battle for Drayton Asia

By John Authers

EFM DRAGON Trust has won control of Drayton Asia Trust, removing yet another investment vehicle from the the stable managed by Invesco MIM.

Edinburgh Fund Managers said it had received acceptances for its bids from 51.26 per cent of Drayton Asia's capital and 42.04 per cent of its warrants.

Mr Ratan Engineer, chairman of Drayton Asia, which strongly contested the bid, admitted that EFM Dragon was "home and dry", but continued to claim that the deal was unsatisfactory for its shareholders, as there was no offer of a cash alternative.

Last week Drayton dropped alternative proposals, which would have offered shareholders the choice between a unit trust and a new split capital investment trust, blaming opposition from CIN, the manager of the British Coal Pension Funds.

CIN has a 20.1 per cent stake in Drayton Asia, and a controlling interest in Edinburgh Fund Managers, which manages EFM Dragon.

EFM Dragon must now calculate Drayton Asia's formula asset value as at March 26 before Drayton shareholders can be issued with Dragon shares under the terms of the bid. This will be done "as soon as possible".

The offer has been extended.

Sir Hugh Byatt, chairman of EFM Dragon, said: "The way is now clear for shareholders and warrant holders to accept the offers in order to merge Drayton Asia with Dragon and create the largest pure Asian investment trust in the UK."

Buckingham holders told to sell

By Peggy Hollinger

INDEPENDENT directors of Buckingham International will today advise investors in the struggling hotels and nursing homes group to sell their shares, as its cash difficulties appear greater than previously thought.

Their statement marks a change of opinion on a £12.4m offer for Buckingham's common and loan stock from Purlieus, a Jersey company controlled by Jemma Trust and Naaz Holdings. Together they own 38.7 per cent of Buckingham and the Takeover Panel ordered them to bid for the rest.

The directors will tell shareholders they should either accept the offer or sell their ordinary shares in the market for a higher price. They should retain, though, their loan stock. Purlieus is offering 2.75p per ordinary share and 27.5p per £1 nominal of loan stock.

Earlier this month the directors advised shareholders to reject the bid and retain an ongoing interest. The shares closed down ¼p on Friday at 5p.

The group's survival, however, is now in doubt if it cannot find funding – either through project finance or asset sales – before the middle of 1993. £100m.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Kabi-Pharmacia (Sweden)	Erbamont (Italy)	Pharmaceuticals	£915m	Montedison agrees sale
Anheuser-Busch (US)	Grupo Modelo (Mexico)	Brewing	£336m	Near-18% stake a first
Warner-Lambert (US)	Wilkinson Sword (Intl)	Toiletries	£100m	Changing hands again
BBA (UK)	Haefely (Switzerland)	Electrical engineering	£65m	BBA creating power
BBA (UK)	MWB (Germany)	Electrical engineering	£21m	Distribution equipment group
Minorco (Luxembourg)	Steetley Iberia (Spain)	Construction materials	£55m	Another Redland disposal
Phoenix Home Life Mutual Insurance (US)	Unit of Aitken Hume Intl (UK)	Fund management	£38m	Aitken exits US
Bemrose Corp (UK)	Bemrose Yattendon (US)	Advertising services	£12.8m	Buys out JV partner
Paterson Zochonis (UK)	Pollena (Poland)	Detergents	£2.6m	Taking 80% stake
Lucas Industries (UK)/ Segem (France)	JV	Auto components	n/a	30-70 initial split

Inchcape motoring to strong performance

Andrew Bolger looks at the progress of the group since the acquisition of TKM

INCHCAPE, the international motor and business services group, is today expected to report sharply increased profits and earnings, thereby maintaining its strong performance in spite of recession.

Reporting good results will also be a significant landmark for Mr Charles Mackay, who took over at the end of 1991 from Sir George Turnbull, the group's forceful chairman and chief executive.

Mr Mackay had already been chosen to work as chief executive alongside Sir George, but the chairman's sudden illness meant the succession had to be brought forward at very short notice. Sir George, who died in December, helped transform the former colonial trading house into a premium-rated FTSE-100 stock, which currently has a market value of more than £3bn.

When Sir George became ill, Mr Mackay, who had led the Far Eastern operation, was in London negotiating the £382m acquisition of Tozer Kemsley Millbourn, the motors and retailing concern. The purchase, from Brierley Investments of New Zealand, was funded by a 1-for-3 rights issue, Inchcape's first since it was floated in 1958.

Mr Mackay said there was no time for any handover: "We were right in the middle of the TKM deal, so one could hardly have asked for a more inauspicious start. It worked very well because the TKM deal galvanised the whole company, pulling everyone together – it was very exciting. The rights was well received in the City and it gave all of us a sense of pride.

"The more fundamental thing was George's legacy – it didn't all collapse when George himself suddenly disappeared. Inchcape under George was remarkably free of company politics. That team spirit he fostered just rode on; the momentum was unstoppable. People also closed ranks and did it as a sort of tribute for George."

Sir David Orr, who was chairman of the group between 1983-86, stepped in to fill that role again until September, when Sir David Plastow arrived. Sir David, 60, is another motors veteran, having just retired as chairman from Vickers, the engineering group that includes Rolls-Royce Motors.

The group has appointed three executive directors to the board and two non-executives in the last year. Mr Mackay said: "The people who had been brought in by George in their mid-forties woke up one day and found they were in their fifties. It crept up on us and it was felt necessary that we get the right age profile for our board."

Charles Mackay: became chief executive at the end of 1991

Mr Mackay talks enthusiastically about the TKM acquisition as a "quantum leap" for Inchcape. "It broadened the range of people we were involved with and heightened our already very strong image with motor manufacturers. We've taken on eight motor franchises in the last year – more than we did in the past 10."

A joint venture with Peugeot, to import the French maker's cars into Japan, had caused a lot of excitement. "We have had approaches from other manufacturers, to see what we could do for them – to which our response is "hang on guys, we've just started this one – let's not run before we've learned to walk."

In spite of Inchcape's recent success, some observers expressed unease that the TKM deal increased the exposure to motors, lifting the proportion of sales and profits from 50 to 60 per cent.

Mr Mackay said: "One reason people are concerned is that there is a general perception that motors is a cyclical business. If you look at Inchcape and our track record, you will find that is not actually the case. We're not a Ford, and we're not a Tom Cowie [the UK motor distributor]. We're a relatively unique, as an import/distribution specialist.

"When a downturn comes, our spread of business across 26 countries means that we've managed to keep going through all recessions. The UK may be going through a tough time, but Hong Kong has just had a boom year – and so has Greece. There's not another motors group of which that is true.

"The big mistake people make is in assuming that size of market determines profitability – whereas almost the reverse is true."

The chief executive also expressed satisfaction with the progress of "global streaming," that is dividing the group's activities by business – motors, marketing and services such as shipping and insurance – rather than by location.

Mr Mackay said this process had undoubtedly started to produce benefits, although more remained to be done. "One thing we have not yet got to grips with is the transfer of best practice. It's amazing how much resistance there is – just sheer inertia."

In spite of the success of the TKM deal, Mr Mackay sounds a cautionary note: "Acquisitions hit the headlines – and there's a danger there, both internally and externally, that everyone starts thinking that is what it's all about.

"To put it in perspective: if you go back to 1982, our motors business made operating profits of about £10-12m. By 1991 (pre-TKM acquisition) we'd got it up to about £120m. Nearly all of that came from organic growth, doing better, selling more cars, getting more efficient."

He believes 75 per cent of growth in the motors business should come from organic growth – defined as including bolt-on acquisitions, and only about 25 per cent from larger acquisitions. "We have made it absolutely clear that does not mean we have to get that quarter – if we find the right acquisitions, we will – if we don't, we won't."

NEWS DIGEST

C&J Clark debate heats up

MEMBERS of the 500-strong Clark family will meet early this week to consider alternatives to a sale of C&J Clark, the private shoe manufacturer which is the focus of an offer from foods and property company, Berisford.

The debate will be fuelled by the publication of the company's annual results and an accompanying letter calling an extraordinary general meeting to consider Berisford's offer. The results are likely to be announced within the next week.

Meanwhile, it is believed that one of the four dissident directors has been rebuffed in attempts to get other bids considered. The majority of the board backs the bid from Berisford, which was invited by Clark's advisers, Schroders, to participate in the tender process.

H Clarkson lower

Reflecting difficult trading conditions, especially in insurance, pre-tax profits of Horace Clarkson fell from £5.5m to £0.5m for 1992.

The final dividend has been cut from 5.25p to 1p for a total of 1.5p (8p). Losses per share were 1.3p (12.9p earnings).

Turnover was down at £37.1m (£42m). At the pre-tax level, shipbroking fell to £3.5m (£4.2m) while insurance losses were £2.1m (£1.8m profits).

Moorfield Estates

Moorfield Estates, the property group, turned in increased pre-tax losses of £2.18m for the 14 months to December 31, against a restated £1.2m in the previous year. The result however, was struck after provisions of £1.13m resulting from a board review of a March 1992 portfolio valuation.

Losses per share were 20.4p (11.4p) and there is no dividend (0.1p).

GR in the red

GR (Holdings), which has interests in property, leisure and fitness, and sheepskin processing, fell £124,753 into the red in the six months ended December 31. Last time there were pre-tax profits of £413,630.

Turnover amounted to £2.63m (£3.45m). Although there were losses per share of 1.3p (1.5p earnings) the group is paying an unchanged interim dividend of 0.4p. Last time there was also a special interim of 25p.

Garton Engineering

Garton Engineering, the engineering components and special fasteners group, announced a sharp fall in pre-tax profits from £1.36m to £254,561 in 1992.

The result last time was boosted by exceptional receipts from insurers following a fire at its Midlands site.

Turnover improved to £20.2m (£19.3m). Earnings per share fell from 25.84p to 4.83p and the proposed final dividend is cut to 3p (5.25p) for a reduced total of 4p (7p).

Plasmec ahead

Despite adverse trading conditions, sales of Plasmec, the USM-quoted telecommunications and switching products group, rose by 19 per cent to £14.4m in 1992, while pre-tax profits climbed from £179,822 to £672,472.

Earnings per share were 10.4p (2.5p), while the recommended final dividend is 2.25p for a total of 3.75p (2.5p).

Mr John Crosse, chairman, warned that the first half would be disappointing, but he was cautiously optimistic that the second half would show a significant improvement.

INTERNATIONAL COMPANIES AND FINANCE

NEWS IN BRIEF

Banesto arm launches Pta12bn bid

LA CORPORACION Banesto, the Spanish industrial holding company, is bidding for the 64 per cent of Spanish property group Inmobiliaria Urbis it does not already own, AP-DJ reports from Madrid.

La Corporacion, owned by Banco Espanol de Credito, the Spanish bank, is offering Pta600 a share, plus Pta50 per subscription right to a capital increase, valuing the stake at more than Pta12bn.

● Sun Hung Kai Properties, the leading Hong Kong property development company controlled by the Kwok family, has announced a 21 per cent rise in net profits for the first half to December to HK$3.24bn (US$420m), up from HK$2.67bn a year earlier, writes Simon Davies in Hong Kong.

The interim dividend is set at 45 cents a share, up from 39 cents. In spite of uncertainty on the Sino-British dispute over political reform, demand for its residential projects had been strong so far this year.

● Ericsson, the Swedish telecommunications group, is planning a convertible bond issue worth up to SKr2.17bn ($281m), to help finance acquisitions, writes Christopher Brown-Humes in Stockholm.

Assuming current market conditions, the interest rate will be about 5 per cent and on full conversion 8.4m shares will be created, equal to 4 per cent of the shares in issue.

● BTP Fougerolle, the French construction group, shrugged off the building industry slump to muster a modest increase in net consolidated profits of 2.2 per cent to FFr410m ($73.2m) in 1992 from FFr401m the year before, writes Alice Rawsthorn in Paris.

It suffered losses on its property interests and was forced to make hefty provisions on the fall in value of its properties. Fougerolle, its construction business, increased net profits in spite of a 6 per cent fall in sales to FFr37.2bn.

● Kansallis-Osake-Pankki and Union Bank, two Finnish banks have had their short-term ratings upgraded to A1 from A2 by IBCA, the European ratings agency, writes Christopher Brown-Humes.

Vesteys to put half of NZ meat group up for sale

By Terry Hall in Wellington

WEDDEL New Zealand, the meat company owned by the Vestey family of the UK though their Union International group, plans shareholding changes including a search for a new large shareholder.

This follows a decision by the Vesteys to sell assets to restructure their businesses.

Mr John Prendergast, Weddel managing director, said the family planned to sell about 50 per cent of the company, which is the fourth largest in New Zealand.

One option was to find an overseas investor to buy 30 per cent of the company, and sell the remaining 20 per cent through a public flotation in New Zealand.

Weddel has appointed Buttle Wilson, a New Zealand sharebroking firm, and S.G. Warburg of the US to advise on a trade sale, and Cavill White Securities, another New Zealand broker, to advise on a public flotation.

Mr Prendergast said the flotation would be scheduled for the last quarter of this year with Cavill White as lead broker and manager.

Terry Robinson: keen to keep a large strategic holding

Weddel operates five large processing plants in the North Island. In 1992, it recorded sales of NZ$563m ($296.3m). It processes and markets 11 per cent of the country's mutton and lamb, 17 per cent of its beef, and 27 per cent of its veal.

Mr Prendergast said most of its products were sold internationally through the Weddel brand, the world's largest and most recognised internationally traded meat brand.

The company has shareholders' funds of NZ$70m, and has operated in New Zealand since 1900. Mr Prendergast said the capital raised would enable it to undertake a number of projects.

Mr Terry Robinson, Union International chief executive, said Weddel had traded successfully and because it held an important part in the global meat market, Union International was keen to retain a large strategic shareholding.

Weddel's position would be enhanced by winning an appropriate partner and from additional funding.

"This proposed restructuring would enable Weddel to optimise its trading opportunities from the increasingly competitive position of the New Zealand meat industry and from improving prospects of global trade arising from the Uruguay round of Gatt negotiations," Mr Robinson said.

Crédit Lyonnais hires agency

By Alan Friedman in New York

CREDIT Lyonnais, the state-owned French bank that controls MGM, the loss-making Hollywood studio, has taken the unusual step of hiring Creative Artists Agency (CAA), the leading Hollywood talent agency, to advise on the management and strategy of the bank's $3bn entertainment industry loan portfolio.

The hiring of CAA, whose chairman Mr Michael Ovitz is considered the most influential power broker in Hollywood, comes in the wake of controversy, lawsuits and a flood of red ink from MGM.

Crédit Lyonnais took control of the studio last year after a bitter court battle with Mr Giancarlo Parretti, the controversial Italian financier who received a $1bn loan from the bank to buy MGM in 1990.

For Mr Ovitz the deal with Crédit Lyonnais marks another step towards his goal of expanding from the handling of movie industry talent to investment banking.

Mr Ovitz has worked on deals such as the $6bn acquisition of MCA/Universal, the Hollywood studio, by Matsushita of Japan and the $3.4bn purchase of Columbia Pictures by Sony of Japan.

MGM is believed to have suffered a 1992 operating loss of about $80m, or half the previous year's deficit.

Renown remains in red for six months

By Emiko Terazono in Tokyo

RENOWN, Japan's largest clothing maker which owns Aquascutum, the UK retailer, posted continuing losses for the six months to the end of January due mainly to sluggish sales of women's wear.

Renown changed its accounting year-end to January 31 from December 31. It reported non-consolidated pre-tax losses of Y6.41bn ($55.7m) for the six months. This compares with losses of Y14.88bn for the seven months to the end of July 1992.

Sales came to Y113.5bn, compared with Y109.2bn for the earlier seven months, having been hit by falling consumer demand in Japan. Net losses emerged at Y5.99bn against Y14.88bn and losses per share at Y21.61 against Y68.92.

The directors recommended a dividend of Y3.75 a share for the six months, against the previous seven months' Y4.4.

For the 12 months to January 1994, the company hopes to return into the black, expecting pre-tax profits of Y1bn on sales of Y102bn.

The company based its improved forecast on an increase in the number of shops, expected strong demand for the Aquascutum and J. Crew brand clothes and the introduction of the group's own brand, Next Eye. Renown introduced Aquascutum brand clothes in Japan last autumn, and J. Crew in spring 1992.

Adia passes dividend and plans rights issue

By Ian Rodger in Zurich

ADIA, the troubled Swiss employment agency which plunged into loss last year, has passed its dividend for the second year running and proposed a recapitalisation involving a SFr250m ($166m) rights issue.

The net loss, at SFr219m, was slightly larger than estimated in January, and compares with a profit of SFr25m in 1991. The group faced heavy restructuring costs following excessive diversification in the late 1980s when it was controlled by Mr Werner Rey, the disgraced financier.

Revenues were flat at SFr3.2bn. Core businesses accounted for SFr128m, non-core businesses SFr5m, with the remainder coming from write-offs. Net debt at year end was SFr922m compared with SFr1.48bn a year earlier.

The directors proposed cutting nominal share capital to SFr22.6m from SFr225.6m and nominal participation certificate capital to SFr2m from SFr20m. A rights issue would be launched, on the basis of 11 bearer shares at SFr100 for each nine held and 11 class B participation certificates at SFr100 for each 45 held.

The rights issues would be underwritten to the extent of SFr200m by Mr Klaus Jacobs and Asko Deutsche Kaufhaus, which between them hold 56.2 per cent of the votes and 43.2 per cent of the capital.

Asko said it would consider selling its stake in 1994 or later once the group had returned to profitability. Adia said it could have a small loss in 1993.

Exceptional gains lift Belgian retailer as sales growth slows

By Andrew Hill in Brussels

UNDERLYING profits at Delhaize "Le Lion", Belgium's largest retail group, slipped in 1992, and sales growth slowed.

However, the group announced a 46 per cent rise in net consolidated profits, because of exceptional gains on the disposal of Treasury stock and the sale of its Pingo Doce supermarkets in Portugal.

The company, which forecast a sharp increase in profits in January, reported net consolidated profits of BFr6.38bn ($189.3m), against BFr4.37bn in 1991. Stripping out the exceptional gains, net profits emerged at BFr3.86bn.

The directors are recommending a net dividend of BFr20 per share, against BFr17.4 in 1991, and an additional BFr6.6 a share to celebrate the group's 125th anniversary.

Overall sales rose by 5.3 per cent to BFr327bn from BFr310bn, in spite of a 7 per cent fall in the value of the dollar. Turnover was dominated by the Belgian stores which increased sales by 6.3 per cent to BFr91.1bn.

In the US, the group blamed a sluggish economy and last year's alleged attempts to "smear" the reputation of the Food Lion stores for a 13.2 per cent fall in net profits after depreciation. Sales increased by 11.8 per cent to $7.2bn, but net profits dropped to $178m from $205m. Despite the US difficulties, Food Lion increased its chain from 881 stores to 1,012 and intends to open up to 110 supermarkets this year.

Sales slowed at Super Discount Markets based in Atlanta, but it returned to the black with net profits of $600,000. Delhaize said its Czech subsidiary, which operates seven stores in Prague, earned a small profit, while its Greek operation increased operating profit.

Girocredit cuts pay-out as profits slip to Sch1.3bn

By Eric Frey in Vienna

GIROCREDIT, Austria's third largest bank, has reported an 18 per cent fall in 1992 operating profits to Sch1.3bn ($113m) from Sch1.58bn.

The bank employed Sch2bn in hidden reserves to cover provisions for bad loans last year – less than half the amount in 1991.

The dividend to its shareholders, who consist of various Austrian savings banks, has been cut from 8 per cent to 3 per cent. Mr Hans Haumer, chairman, forecast an increase in 1993 earnings after operating profits for the first two months climbed 17 per cent from the year earlier level.

Assets of Girocredit climbed 3 per cent to Sch324bn from Sch315bn. Girocredit, which acts as a clearing house for Austria's savings institutions, is in talks with Erste, the Vienna-based savings bank, and several leading provincial banks to combine most of the savings and loans sector.

Publicis earnings steady at FFr148.9m

By Alice Rawsthorn in Paris

PUBLICIS, one of France's largest marketing services groups, maintained net profits at FFr148.9m ($26.7m) last year in the face of fierce competition in the European advertising market.

Mr Maurice Lévy, chairman, said that in spite of the difficult trading climate Publicis had produced a "satisfactory performance" during the year. The group's turnover was static, at FFr19.9bn although Publicis said it would have risen by 5 per cent if there had been constant exchange rates.

European advertising agencies had a tough time in 1992 because of the economic slowdown and the long-term trend away from conventional media advertising to other forms of "below the line" marketing, which are often less profitable. These problems were aggravated in France by concern about the effect of *le loi Sapin*, the new regulations on media buying.

However, Publicis managed to compensate for the sluggish state of the market by winning new business. Its new accounts include the advertising for Perrier and Vittel mineral water, which it was awarded by Nestlé, the Swiss food group, following Mr Lévy's role in co-ordinating Nestlé's communications strategy during its bid battle for Perrier.

Mr Lévy said Publicis hoped to maintain sales in 1993, but warned that profits could be affected by the impact of *le loi Sapin* and by continued cuts in marketing budgets.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

The pitfalls of peering into the future

"THE result of leaving the European exchange rate mechanism, combined with large cuts in interest rates, would be a fall in the pound probably unprecedented in the last 40 years... And quite soon interest rates would have to go back up again – to much higher levels than they are today." – Mr Norman Lamont, UK chancellor of the exchequer, July 10 1992.

RECENT events in the gilts market have underlined the pitfalls of peering into the future. Not only have short-term interest rates fallen since Britain was forced to leave the ERM last September, but the same trend has been apparent for long-dated gilts which are more important in determining long-term borrowing conditions.

The events of the past six months illustrate that the economic theory behind the chancellor's speech to the European Policy Forum last July was extremely flimsy. They also indicate the degree to which the environment for international bond markets has improved, due to slow growth and generally weak inflationary pressures in many parts of the developed world.

Even though last week yields for most classes of gilts moved up ahead of this week's biggest-ever gilt auction, the market has performed far better in recent months than most people in the Treasury and the Bank of England appear to have expected last autumn.

Mr Mervyn King, the Bank's economics director, spelt out in a speech last week how official thinking has shifted. "Departure from the ERM led to sharply lower expected interest rates in the short run.

"By contrast, rates in the long run were expected to be higher than before, suggesting that that there was some loss of counter-inflationary credibility from our [ERM] exit. But this loss was small, and since then there appears to have been some restoration of long-run credibility."

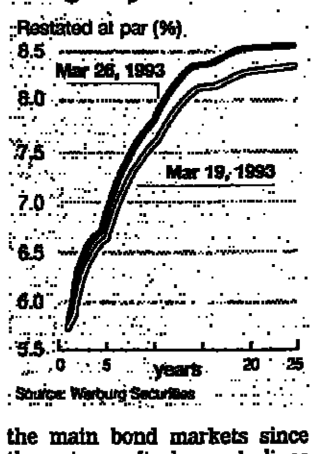
Since the ERM exit, bank base rates have come down from 10 per cent to 6 per cent. Ten-year gilt yields have dropped from 9.1 per cent to 7.7 per cent, while yields for 25-year bonds have moved from 8.8 per cent to 8.5 per cent.

Over the same period, the difference between yields for 10-year gilts compared with 10-year German government bonds has come down from about 1.5 percentage points to about 1.1. This indicates international investors have reduced the extra "risk premium" they demand for holding UK securities as opposed to German ones.

The move to lower gilt yields has partly reflected the shift in this direction for virtually all the main bond markets since the autumn. It also underlines reduced worries about price pressures in the UK economy over the next year or so, together with only muted concern about the level of gilt issues needed to finance the growing public sector borrowing requirement.

UK gilts yield

Restated at par (%)



Source: Warburg Securities

Meanwhile, buying pressure for gilts has been helped by the more resilient tone to sterling in recent weeks.

The pound gained 1 pfennig on Friday to close against the D-Mark at DM2.43, some 10 pfennigs up from its DM2.335 level at the beginning of the month.

Over the next few months, many bond specialists expect gilt prices to fall with a consequent rise in yields, as the implications of the expected £50bn PSBR in the financial year beginning next week sink in.

Such thinking was a factor behind the 15 basis point increase in yields at the long end of the gilt market last week, with attention focusing on the £3bn auction next Wednesday of a new class of 20-year stock – the 8 per cent bond due in 2013.

News of the amount of stock due to be auctioned by the Bank led to some technical switching down the yield curve, leading to a price fall on the week of about 2 points as measured by the June gilt future.

The reduction in prices probably augurs well for the success of the auction – the first in a series due roughly once a month over the coming year – as it increases the probability that foreign and domestic buyers will want to buy gilts.

Peter Marsh

US MONEY AND CREDIT

Fears of inflation continue to haunt bond investors

LAST week was not a good one for the US Treasury bond market. Investor sentiment continued to be increasingly bearish, the price of the benchmark 30-year Treasury bond fell by more than one and a half points on the week and fears about inflation were still haunting the market.

Bond investors have in the last few weeks convinced themselves – albeit in a rather artificial and perhaps even mistaken manner – that they were staring at all the ingredients needed for a sell-off.

Since mid-March, when fears of inflation were rekindled by statistics that in retrospect seem misleading, the market has been in a distinctly sour mood.

Last week this worsened after professional dealers ended up holding the bulk of more than $26bn worth of new two and five-year Treasury notes that were auctioned.

The malcontents of the market prevailed so substantially that it turned out to be of little consequence when, last Thursday, the Senate approved President Clinton's deficit-reducing budget package faster than had been expected.

Bond prices continued to slide on Friday and the only explanation is that all the good news about the deficit reduction measures and prospects for economic recovery had already been priced into the market back in January, at the time of Mr Clinton's state of the union message.

Ms Kathleen Camilli, chief economist at Maria Fiorini Ramirez, the bond market advisory firm, reckons the perceptions of both faster growth and higher inflation have been overdone.

She, like other economists, says the reason is that some of the recent consumer price and producer price statistics overstate inflationary pressures. "In reality, inflation is still running at about 3 per cent annually and it will continue to be held down by global competitive pressures and moderate wage gains."

Mr Philip Braverman, DKB Securities chief economist, takes a similar view: "For the moment the market is responding to misleading suggestions that the economy is strengthening, that inflation is mounting and that credit growth is beginning to accelerate." In fact, according to Mr Braverman, credit is still constrained and inflation will dissipate with a renewed economic slowdown.

Since the February employment report was released on March 5 the bond market has been functioning in a trading range of yields between 6.75 per cent and 6.92 per cent on 30-year paper. On Friday, the price of the 30-year Treasury bond was 102 5/32 to yield 6.94 per cent, compared to a price of 103 31/32 and a yield of 6.81 per cent a week before. The current yield is the highest level since January.

It didn't help matters that last week's auction of $15.25bn of two-year notes and $11bn of five-year notes put the paper mainly in the hands of professionals. Retail buyers remained on the sidelines.

This week the market will focus on the new unemployment report that is due to be released on Friday. Ms Camilli forecasts an unchanged unemployment rate of 7 per cent and the addition of 137,000 payroll jobs for the month. That compares to a February rise of 365,000 such jobs, but this number will probably be revised downward by about a sixth.

Mr Braverman argues that Treasury bond investors should not only reverse their sell-off mentality, but expect lower yields in the near term. However, this will depend on other factors such as the first quarter GDP report, to be released at the end of April, and the Treasury's plans for its May refunding operation, to be announced in early May.

Alan Friedman

AUSTRALIAN BONDS

Budget deficit worries bolster yields

A BOUT of nervousness struck the Australian government bond market last week as it became clear that the re-elected Labor administration and the Reserve Bank are heading for a disagreement about the growing federal budget deficit.

The unease sparked a wave of selling on Friday which raised yields across the board. The yield on the October 2002 Treasury bond rose 20 basis points to 7.93 per cent, that on the September 1995 bond increased by 10 basis points to 6.38 per cent, and 90-day bank bills finished two points higher at 5.34 per cent.

The sell-off interrupted a sustained rally which had cut the yield on the 10-year bond from around 9 per cent in mid-January to just over 7.5 per cent on March 19.

The rally was triggered by a catalogue of factors, including a reduction in inflation to an OECD low of 0.3 per cent; signs that economic growth is beginning to pick up; receding prospects of a balance of payments crisis; and a firmer Australian dollar following cuts in overseas interest rates.

The announcement of an early election, subsequently won by the incumbent Labor Party, also helped by eliminating political uncertainty and increasing the prospects of a cut in official rates, which eventually materialised last Tuesday.

In the event, the Reserve Bank restricted the easing to half a percentage point, disappointing the equities market, but in line with expectations in the bond market which had marked down the yield on 90-day bills to 5.26 per cent before the announcement.

The rosy outlook dimmed on Friday, after Mr John Dawkins, the finance minister let it be known that he regarded the budget deficit as a less important issue than the need for growth to reduce unemployment from its near record level of 11.1 per cent.

Mr Dawkins' view was in stark contrast to a warning issued earlier in the week by Mr Bernie Fraser, the Reserve Bank governor, that the deficit must be reduced over the medium term to provide room for an increase in private investment.

The finance minister was presumably aware of the impact his reported views were likely to have on the bond market, since a similar outbreak of concern about perceived fiscal laxity after his August 1992 budget pushed the 10-year bond yield from about 8.3 per cent to more than 9 per cent.

This time round, the market wanted rapid confirmation from the government that it remains determined to reduce the deficit, which is forecast at A$15.9bn in the year to June.

"An explanation is needed," said one trader. "If this guy is serious, then bonds should not be at current levels."

However, Mr Dawkins failed to clarify his reported views, leaving the market stewing over forecasts by business economists that the deficit could rise to A$20bn next year unless urgent action is taken.

Ms Ivana Bottini, an economist at Citibank in Sydney, says the market's main fear is that an expansionary fiscal policy risks triggering a sharp rise in domestic consumption, a current account crisis and a rebirth of inflation.

Ms Bottini believes these fears are exaggerated in view of the sluggishness of Australia's recovery from the 1990-91 recession.

However, they raise the prospect that Mr Fraser might feel constrained to raise interest rates to keep inflation low and head off overseas pressure on the Australian dollar.

The optimistic view is that Mr Dawkins will take sufficient action in his August budget to convince the markets that the government is serious about restraining inflation and balancing the federal books. That would lay the groundwork for a further rally across the board.

But the finance minister's lack of concern suggests that he intends to stand by his view that the deficit will disappear as growth accelerates.

Friday's events suggest that the market does not believe him.

Kevin Brown

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABB INTL FIN 6 3/8 96	200	103 1/2	-1/4	5.04
ABBEY NATIONAL 9 3/4 94	200	104 7/8	-1/8	4.18
ABN 9 1/8 94	200	106 1/2		4.31
AETNA LIFE & CAS 7 3/4 18	200	101		7.65
ALBERTA PROVINCE 8 5/8 95	750	110 1/2	-1/4	5.38
ALBERTA PROVINCE 9 3/8 95	600	110 1/4	-1/8	4.83
AMERICAN EXPRESS 0 00	450	57 3/8	-1/4	7.35
AMERICAN GENERAL 9 3/4 95	100	109 5/8	-1/8	5.11
AMERICAN INTL 0 04	750	45 1/8	-3/8	7.24
AMOCO CANADA 7 1/4 02	250	104 1/4	-1/4	6.62
[illegible]				
QUEENSLAND GOVT 10 1/4 95	100	111 5/8	-1/8	5.04
RALSTON PURINA 11 3/4 95	150	112		5.62
REED PUBLISHING 9 5/8 97	150	113	-1/2	6.07
SAINSBURY 9 1/8 96	150	110 3/8	-1/4	5.76
SAS 10 99	200	111 1/2	-1/2	7.52
SAS 10 1/8 95	150	109 1/2	-1/8	6.13
SBAB 9 1/2 95	500	109 5/8	-1/8	4.84
SBC FINANCE 7 3/4 96	200	107 3/4	-1/8	5.23
SEARS EURO TRUST 8 3/4 96	750	108 1/2	-1/4	5.84
SEARS O/S FIN ZERO 98	500	69	-1/8	7.26
SEARS ROEBUCK EURO 9 3/4 95	500	108 1/8	-1/8	5.33
SKANDINAVISKA ENSK 7 3/8 97	500	102 7/8	-1/2	6.56
SNCF 7 1/4 94	175	102 7/8		3.67
SNCF 9 1/2 98	150	116 1/2	-1/8	5.79
SPAIN 6 1/2 99	1500	101 7/8	-1/8	6.13
STATE BK NSW 8 1/2 96	200	108 5/8	-1/4	5.52
STATOIL 7 5/8 94	200	102 3/4		4.40
SWEDEN 5 1/2 95	2000	101 3/8		4.73
SWEDEN 9 1/4 98	350	114 3/8	-1/8	5.80
SWEDISH EXPORT 8 3/8 96	700	109	-1/4	6.10
[illegible]				
IRELAND 7 3/4 02	500	104 3/8	-1/8	7.02
KFW INTL FINANCE 7 1/4 97	1500	103 3/8	-1/4	6.38
SWEDEN 6 97	2500	104 7/8	-1/8	6.72
TOKYO ELEC POWER 7 5/8 02	1000	105	-1/4	6.89
TURKEY 10 3/4 98	500	106 3/8	-1/2	6.58
UNITED KINGDOM 7 1/8 97	5000	102 7/8	+1/4	6.37
VOLKSWAGEN COM 8 5/8 97	400	108 1/4	-1/8	6.90
WORLD BANK 0 15	2000	23 1/4	-1/8	6.63
WORLD BANK 5 3/4 96	300	99 1/2	-1/4	5.94
WORLD BANK 8 3/4 00	1250	112	-1/8	6.57

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	105	+1/4	5.55
COUNCIL EUROPE 4 3/4 98	250	100	-1/2	4.75
EIB 6 3/4 04	300	110	-1	5.55
ELEC DE FRANCE 7 1/4 06	100	110 1/2	-1	6.04
FINLAND 7 1/4 99	300	108 1/2	-1/2	5.47
GENERAL MOTORS 7 1/2 95	100	102 5/8		6.06
HYUNDAI MOTOR FIN 8 1/2 97	100	106	-1/2	6.87
ICELAND 7 5/8 00	100	110 1/4	-1/4	5.78
KOBE 6 3/8 01	240	109	+1/4	5.02
NEW ZEALAND 4 7/8 99	200	99 1/2		4.97
[illegible]				

EQUITY WARRANTS	Expiry	Price	Chg on week	Prem
MITSUI TOATSU CHEM	11/03/94			
MORINAGA	30/01/98	1 1/2		
NICHIREI CORP	13/09/96	7 7/8	+1/4	25.97
NIPPON COMSYS	11/06/98	14 1/8	+1/8	30.85
NISSHIN STEEL	31/01/95	4	+2 5/8	40.57
ROYAL HOTEL	19/04/96	1/2	+1/4	
SMC	14/03/95	1/2		
TAKASHIMAYA	25/07/95	1 5/8		
TOYO SASH	02/07/96	3 7/8	+1/8	40.39
YAMANOUCHI PHARM	05/08/97	3 1/2	+1/2	
[illegible]	01/03/94	1 1/4	-1/8	27.27

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on March 26

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Eurobond issuance sets record in first quarter

NEW issues in the international bond market reached a record high in the first quarter of this year, reflecting a favourable environment of falling interest rates and an increase in funding requirements, especially from sovereign borrowers.

According to provisional figures from Euromoney Bondware, new Eurobond issuance for the first quarter to March 26 stood at $115.2bn, well above the previous record high of $84.5bn achieved in the same quarter last year. New issuance in the first three months of this year represented 42 per cent of the record $274.4bn raised in the whole of 1992.

Syndicate managers do not believe that new issuance will continue at the same pace in the second quarter, unless there is another currency crisis in Europe. That would prompt European central banks to borrow in foreign currencies to fill up their reserves once again.

Many of the larger borrowers, especially the sovereign names, are believed to have achieved between 40 per cent and 60 per cent of their 1993 funding requirements already in the first quarter.

"The new issuance calendar is likely to be much more opportunistic in the second quarter," one syndicate manager said.

Syndicate managers said that the high volume in the first quarter is closely linked to the rally seen in bond markets across the world, fuelled by expectations of lower interest rates, especially in Europe.

These hopes have been fulfilled by the Bundesbank's decision in recent weeks to lower its interest rates, which has in turn eased the tension between member currencies of the European exchange rate mechanism (ERM).

Falling interest rates have coincided with a large rise in borrowing needs among European countries, either to fund ever-growing public deficits or to replenish foreign exchange reserves depleted by heavy intervention in the currency market to shore up their respective currencies.

The Eurodollar sector of the international bond market continued to be the most active in the first quarter, accounting for 33.8 per cent of the total volume compared with 28.2 per cent in the first quarter of last year.

The volume figures partly reflect the growing popularity of global bond issues, a concept pioneered by the World Bank in 1989.

The process of offering bonds simultaneously in the US, Europe and Asia Pacific allows borrowers to raise larger sums and to place the paper at the best possible price.

So far this year, dollar-denominated global bond issues amounting to $8.75bn have been launched by the World Bank, the Province of Ontario, the Republic of Finland, Ford Motor Credit Company, and the Kingdom of Sweden.

Eurobond volume in D-Marks rose to second place or 20.2 per cent of total issuance in the first quarter, from fourth place or 10.7 per cent in the first quarter of 1992. This reflects the marked increase in demand for D-Mark paper from investors seeking a safe haven during the period of ERM currency volatility.

At the same time, the collapse of the Ecu market meant that the D-Mark sector was one of the few areas of the Eurobond market which offered sufficient liquidity to borrowers needing to raise large amounts.

The volume of new Ecu bonds remained low at the equivalent of just $1.9bn, compared with $14.6bn in the first quarter of 1992, in spite of efforts by the French government and some of the European Community agencies to revive investor interest in Ecu-denominated paper.

Favourable arbitrage opportunities, as borrowers moved to reduce their funding costs by borrowing in one currency and swapping into another, were the main reason for the big increase in Canadian dollar Eurobonds this quarter.

Syndicate managers estimate that a large part of the equivalent of $12.9bn worth of Canadian dollar Eurobonds raised so far this year – up from $4.4bn at the same stage last year – has been swapped into other currencies.

The Eurosterling sector of the international bond market rose up the volume table, as an increasing number of domestic and international borrowers decided to lock into the lowest interest rates that the UK has seen since the 1970s.

New issuance in sterling jumped to 10.9 per cent of the total volume in the first three months of this year from 6.7 per cent in the same period last year.

The sector saw a record for a single transaction, as Abbey National raised £650m through an issue of 10-year Eurobonds, beating the previous record of £600m held by the Kingdom of Sweden.

Apart from the Ecu sector, the other main loser in the first quarter has been the Euroyen area of the international bond market, as issuers were discouraged from borrowing in yen due to its appreciation against other currencies.

New issuance in yen dropped to the equivalent of $10.9bn from $12.2bn in the year-ago period, while its share of the total volume fell to 9.5 per cent from 14.4 per cent.

Antonia Sharpe

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nippon Yusen KK(a)ф	100	Apr.1997	4	1.875	100	Nikko Europe	-
Keisei Electric Railway(b)ф	200	Apr.1997	4	1.625	100	Nomura International	-
Roche Holdings(c)ф	1bn	Apr.2000	7	2.75	100	Swiss Bank Corp.	-
Abbey Nat.Treas.Services	250	Apr.1996	3.02	4.75	101.05	JP Morgan Securities	4.370
Banamex, Nassau Branch(d)#	175	Apr.2000	7	9.125	98.7205	Bankers Trust Intl.	9.180
Chemical Banking Corp.(f)‡	100	Apr.2003	10	(f)	99.875	Morgan Stanley Intl.	-
Klabin(g)#	60	Apr.1998	5	11	99.4	JP Morgan Securities	11.160
Cydsa#	50	Apr.1998	5	9.25	98.48	Citibank International	9.640
BCN Barclays Banco de Inv.#	50	Oct.1995	2.5	11	99.47	ING Bank	11.249
Banco Multiplic#	50	Oct.1995	2.5	10	97.87	Sociemer Intl.Bank	11.093
Genfinance Luxembourg(j)ф	150	(j)	(j)	(j)	100	Merrill Lynch Intl.	-
Banco do Brasil#	100	Apr.1998	5	10.5	99.625	CSFB	10.599
Sam Yang Co.(k)ф	50	Apr.1998	5	4	100	CSFB	-
Banco Bozano Simonsen#	40	Oct.1995	2.5	10.375	99.7313	Merrill Lynch Intl.	10.500
Jindo America(l)‡	30	Apr.1998	5	(l)	100	Daewoo Secs.(Europe)	-
AT&T	400	Apr.1998	5	5.625	101.305	CSFB	5.321
Bancomext	150	Apr.2000	7	8	100.825	Swiss Bank Corp.	7.842
Grupo Televisa(u)‡	100	Apr.1996	3	(u)	100	Chase Investment Bank	-
Grupo Televisa(v)‡	100	Apr.1996	3	(v)	100	Chase Investment Bank	-
Creditanstalt-Bankverein(w)‡	75	Apr.1998	5	(w)	100.2	Creditanstalt	-
YEN							
Suzuki Motor Corp.	20bn	Jul.1999	6.27	4.75	101.55	Nikko Europe	4.457
Suzuki Motor Corp.	10bn	Jul.1997	6.27	4.35	101.5	Daiwa Europe	3.957
Heller Financial(m)‡	15bn	Mar.1997	4	(m)	100.704	Goldman Sachs Intl.	-
Furukawa Co.	15bn	Jul.1997	4.27	4.35	101.55	Yamaichi Intl.(Europe)	3.944
Mitsubishi Petrochemical Co.	20bn	Aug.2000	7.28	4.75	101.775	Nikko Europe	4.456
D-MARKS							
Metallgesellschaft Finance	300	Apr.2000	7	7	101	Deutsche Bank	6.816
Allianz Finance(h)ф	850	Apr.1998	5	6.5	124	Dresdner Bank	-
FRENCH FRANCS							
Soc.Gén.Acceptance(r)‡	300	Jun.2003	10	(r)	100.875	Société Générale	-
STERLING							
Eksportfinans	100	Nov.1998	5.59	7.25	99.899	NatWest Capital Markets	7.259
Bank for Dutch Municipalities	150	Apr.2000	7	7.375	100.142	Barclays de Zoete Wedd	7.348
Legal and General Group(n)§#	120	Apr.2008	15.06	6.75	100	CSFB	-
Leo 1(o)‡	54.9	Jul.2035	1.34	(o)	100.03	JP Morgan Securities	-
Leo 1(p)‡	49.6	Jul.2035	4.15	(p)	100.25	JP Morgan Securities	-
RTZ Canada	150	Dec.1998	5.68	7.25	100.219	Barclays de Zoete Wedd	7.189
London Electricity	100	Mar.2003	10	8	100.27	S.Montagu/SG Warburg	7.956
Britannia Bldg.Society(x)‡	25	Feb.1996	3.84	(x)	99.55	NatWest Capital Markets	-
CANADIAN DOLLARS							
Ontario Hydro(e)#	1.5bn	Mar.1998	5	7.25	98.7	G.Sachs/IBJ/RBC/Scotia	7.567
Bayerische Hypobank	100	Nov.1996	3.5	7	100.5	Hambros Bank	6.816
Kingdom of Norway	500	Oct.1998	5.5	7.25	100.845	IBJ Intl./ Paribas	7.045
Eurofima	125	Apr.1998	5	7.125	101.125	Goldman Sachs Intl.	6.852
European Investment Bank	300	Apr.2003	10	7.75	101.135	JP Morgan Securities	7.584
Mortgage Bank of Denmark	150	Apr.1998	5	7.375	101.071	Salomon Brothers Intl.	7.113
Province of Newfoundland(s)	100	May.2003	10	8.75	100.425	ScotiaMcLeod	8.685
Deutsche Bk.Fin.Curacao(t)‡	50	Sep.2002	9.5	(t)	(t)	Deutsche Bank London	-
ITALIAN LIRA							
European Investment Bank	300bn	Apr.1998	5	10.5	101.625	Credito Italiano	10.071
International Finance Corp.	200bn	Apr.1999	6	10.65	101.35	Banca di Roma	10.337
PESETAS							
European Investment Bank(i)	15bn	Apr.2003	10	11.25	101.64	Banesto	10.972
SWISS FRANCS							
Nippon Meat Packers(q)+ф	300	Apr.1997	4	1	100	Credit Suisse	-
Province of Manitoba	150	Apr.2003	10	5.25	102.5	UBS	4.927

Final terms and non-callable unless stated. +Private placement. §Convertible. фWith equity warrants. ‡Floating rate note. #Semi-annual coupon. a) Denom.: $10,000 + 2 warrants. Exercise price: Y525. FX: 118.45Y/$. b) Denom.: $10,000 + 2 warrants. Exercise price: Y1107. FX: 118.95Y/$. c) Issuer of the warrants: Roche Financial Products. Denominations: $10,000 + 48 warrants; 60 warrants relate to one genussschein of Roche Holding. Warrants have maximum and conditional minimum returns. Additional warrants launched raised a further $200m. d) Puttable on 6/4/96 at 95.6402. e) Global issue. f) Coupon pays 6-month Libor - 0.125%; minimum 5.5%, maximum 9.25%. g) Puttable on 15/4/96 at 96.766. h) Denom.: DM5,000 + 28 warrants: 10 warrants to 1 Allianz share at DM2,200. Exercise period: 19/4/93 - 18/2/98, extendable by 1 or 2 years. i) Matador Bond. j) Perpetual subordinated issue. Fungible with the outstanding $100m. Initial coupon pays 6-month Libor + 1%, thereafter coupon pays 6-month Libor + agreed margin. If not agreed, the alternative margin is + 1.25% until Sep.1996, + 1.65% until Sep.2001 and + 2.4% thereafter. Callable at par on any coupon date from Sep.1994. k) Denom.: $25,000 + 4 warrants. Each warrant entitles holder to 134.76175 non-voting shares at Won29,428 per share. l) Coupon pays 6-month Libor + 1.3%. Puttable on 29/4/96 at par. m) Coupon pays 3-month Libor + 0.4%. n) Conversion price: 568p. Callable at par from 21/5/98. o) A1 tranche. Coupon pays 3-month Libor + 0.375% until Jul.1995 and + 0.75% thereafter. Callable on interest payment dates from Jul.1995 at par. Estimated average life: 1.34 years. p) A2 tranche. Coupon pays 3-month Libor + 0.625% until Jan.1998 and + 1.25% thereafter. Callable on interest payment dates from Jan.1998 at par. Estimated average life: 4.15 years. q) Final terms fixed on 29/3/93. Callable on 8/4/95 at 101% and on 8/4/96 at 100.5%. r) Coupon pays 9.5% fixed annual in first year and 17% - 1.5 * 3-month Pibor thereafter. s) Coupon is reset at maturity and holders have option to extend bonds for a further 10 years. t) Block trade. Price, fees undisclosed. Fungible with the outstanding C$325m. Coupon pays 6-month BA's - 0.3%; minimum 5.875%, maximum 8.875%. u) Coupon pays 6-month Libor + 3.125%; minimum 5.75%. v) Coupon pays 12.25% - 6-month Libor; minimum 3%. w) Coupon pays 4% fixed for the first 6 months and 11.75% - 6-month Pibor thereafter; payable in dollars. x) Fungible from August with the outstanding £75m launched in July 1992. Coupon pays 3-month Libor + 0.15%. Note: Yields calculated on ISMA basis.

RISK AND REWARD

Questions over growth of banks' off-balance sheet exposure

THE over-the-counter derivatives markets may continue to expand but the off-balance sheet credit exposure of banks involved in them has ceased to grow.

If anything, off-balance sheet risks shrank last year. That is the conclusion to be drawn from the recent accounts of three of the largest US commercial banks.

Citibank, Bankers Trust and J.P. Morgan are among the half-dozen or so of the biggest US banks in the over-the-counter markets, alongside Chemical, BankAmerica and Chase Manhattan. Notes to their 1992 accounts show the pace at which their derivative portfolios are growing, but in a way that is not adding to their real exposures – at least, according to the banks' own measurement of those risks.

Between them, the three banks were involved in interest-rate related derivatives with a notional value of over $2,000bn at the end of 1992, up from under $1,500 a year before. However, the implicit credit risk in these instruments actually fell, from $26.1bn to $22.9bn.

The reason? The amount at risk is not directly related to the scale of the contracts, but to the extent to which each contract is showing a gain. In other words, if a counterparty stopped paying, say, the fixed-rate leg of an interest swap agreement, the scale of the loss would depend on how profitable the swap has become to the bank.

If the payments were at 6 per cent, compared with a market interest rate of 5 per cent, then the bank would face a cost from the lost income stream. That lost income, discounted back to present value, is the replacement cost of the contract. The static or falling credit exposure of the banks last year suggests that the income they are receiving on the average interest rate contract is closer to market levels than a year before. In volatile markets, these credit figures could rise or fall sharply as the gain on particular contracts rises or falls.

According to a recent joint report from the US Federal Reserve, Federal Deposit Insurance Corporation and Office of Comptroller of the Currency, most of these risks are concentrated in a small number of large financial institutions which have sophisticated ways of measuring and controlling their derivatives exposures. Their report – Derivative Product Activities of Commercial Banks – raises none of the concerns over the growth of the derivative markets seen in some official quarters.

A similar picture – of rising trading volumes but static credit risk – emerges from foreign exchange-related derivatives. The three banks added about $400bn of exchange-related derivatives in terms of notional value, taking the total to $1,800bn at the end of 1992. The credit risks associated with these contracts edged down to $40bn.

Taking the banks as a group, the growth in volume, by about a third, was consistent across most of the different exchange and interest rate products – swaps, options, futures and forwards. However, there were sharp differences between the banks in terms of which instruments each had been most active in:

- The notional value of J.P. Morgan's interest rate swap portfolio jumped to $368bn at the end of 1992 from $250bn a year before.
- Options were the fastest-growing interest rate product, with the outstanding amounts jumping to $570bn from $330bn. Also, Bankers Trust's involvement in interest rate futures and forward contracts soared to $246bn from $75bn.
- In keeping with its strong position in foreign exchange, Citibank's outstanding forward contracts and futures in the exchange markets leapt by $200bn to nearly $800bn.
- The growth of equity and commodity derivatives was confirmed by J.P. Morgan's disclosure that outstanding notional amounts in these markets had risen to $38.8bn from $18.3bn. Bankers Trust, though, reported that the notional value of "other contracts" (mainly equity and equity index options) had fallen to $29bn from $58bn.

At least some of these amounts will start to appear on US bank balance sheets from next year, following a Financial Accounting Standards Board ruling. According to Bankers Trust, had the ruling been in force now, it would have swollen the balance sheet by $14bn, hitting its ratio of equity to total assets.

Richard Waters

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close March 26

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
13100	Abitibi Pr	$15⅜	15⅛	15⅜	
43400	AgnicoEa	$6⅜	6⅛	6⅛	
9800	Air Cda	298	290	295	
57000	Alberta En	u$19¼	18⅞	19⅛	+¼
6400	AlbNtGas	$15¾	15¾	15¾	
233300	Alcan Al	$24	23¾	23⅞	-⅛
389700	Am Barr	$21¼	21	21⅛	-⅛
12700	Atco Cl 1	$12¼	12⅛	12⅛	
342400	Bk Montr'l	$23¾	23½	23⅝	
765400	Bk Nova Sc	$25⅛	24⅞	25	
21300	BC Sugar A	$10⅞	10⅜	10½	-¼
916700	BCE Inc	$45	44½	44⅝	-1
34000	Belmoral	13½	12	13½	
8000	BGR A	$7¾	7⅝	7⅝	-¼
145700	Bomb'dierB	$10⅝	10	10⅝	+½
112900	Bow Valley	$12¾	12¾	12¾	+⅛
1475600	Bramalea	24	d23	23½	
842200	Brascan A	$11¾	11½	11⅝	+⅛
318700	Breakwater	21	20	21	
47900	BC Tel	$20⅝	20¼	20⅝	+⅜
9000	Bruncor	$22	21⅞	21⅞	-⅛
7200	Brunswick	$8¾	8½	8¾	+¼
31100	CAE Ind	500	495	495	
92500	Cambior	$14⅛	13¾	14	-⅛
6100	Cambridge	$16½	16	16½	+¼
400	Cameco	$18	17⅞	18	+⅛
15000	C'bell Res	38	37	38	-2
188800	CanImpBk	$27¼	27	27¼	
49500	Can Occid	$26¾	26½	26¾	
759400	Can Pac	$19⅛	18⅞	19	+⅛
200	Can Tire	$16	16	16	
108200	CanTire A	$13½	13¼	13¼	-⅛
9200	Can Util A	$21⅞	21¾	21⅞	+⅛
400	Can Util B	$22	22	22	
500	CanTngstn	97	97	95	
2600	CanGeninv	$30⅝	30	30⅝	+½
20500	Canfor	$35¼	34¾	34¾	-⅝
13300	CnPcForest	$22½	21¾	22½	
18700	Cara Op	455	450	455	+5
20400	Cascades	$6	5¾	5⅞	-⅜
400	Celanese	$44¾	44¾	44¾	+¾
1900	CntCpital	30	27	27	-4½
30200	Cinepx Odn	155	150	153	+6
2100	Cntrl Fd A	490	485	490	
98800	Cominco	$16⅞	16¾	16⅞	-⅛
152800	Coputalog	u168	155	155	-10
71600	Coral Sys	$18⅜	17⅞	18¼	+⅜
1000	CoscanDev	161	161	161	
60800	CrownX A	340	330	335	+5
62800	Denison A	34	33	34	+3
11400	Derlan	390	380	390	
120500	Dofasco	$14⅜	14	14	-⅛
4800	Domion Txt	u$10	9⅞	10	+⅜
29800	Domtar Inc	$5½	5⅜	5½	
2100	Du Pont A x	$43	42	43	+.71
15000	DundeeBncA	425	420	425	+5
88700	Echo Bay M	$7⅞	7⅝	7⅝	-⅛
3300	Emco Ltd	u$8¾	8¾	8¾	+¼
300	Empire	$12⅛	12⅛	12⅛	-⅛
17000	Euro Nav	u$20⅛	19½	19½	-⅝
2000	FPI Ltd	360	345	350	+5
11300	[illegible]	$8⅛	8	8	-⅛
6500	Fleming	$14¼	14	14¼	+¼
2300	Fst Mara A	$12	12	12	
7200	Fortis	$24⅛	23⅞	24	+⅛
27700	Four Seasn	$15½	15¼	15¼	-¼
8500	FrancoNev	$38	37½	38	+⅜
500	Gendis A	$20¼	20⅛	20⅛	
34500	Glamis Gld	$6¼	6⅛	6⅛	
261200	GoldnStar	$10	9⅞	10	+⅛
600	Granges	205	205	215	
1200	GtW Lifeco	$15	15	15	
275300	Gulf Cda R	380	360	380	+15
2100	GW Utils	$6	6	6	
4700	HarrisSt A	$6¾	6½	6¾	+¼
4300	Hawker Sid	$21¼	21¼	21¼	
29500	Hees Intl	$10⅞	10½	10½	-⅜
57200	Hemlo Gold	$9	8⅞	8⅞	-⅛
10700	Hollinger	$11⅛	11	11⅛	+⅛
6800	Home Oil	$15	14⅞	15	
22300	Horsham	$13⅜	13¼	13¼	-⅛
800	HudsBayMSS	465	d465	465	
133800	HudsonsBay	u$35¼	34¾	34¾	-½
85100	Imasco	$39¾	39½	39½	-⅛
130400	Imp Oil	$47⅝	47¼	47⅝	+¼
368800	Inco	$29½	29⅛	29⅛	-⅝
13700	IntMurexT	$5⅞	d5⅞	5⅞	+⅛
125200	IntprPipe	$25⅞	25¾	25⅞	+⅛
7900	Invest Grp	$27⅛	27	27	
3300	Ivaco A	375	365	365	
1700	Jannock	$15¾	15½	15½	
3400	KerrAddis	$19⅝	19⅝	19¾	
395700	Labatt	$26¼	26	26⅛	
225400	Lac Mnls	$9⅛	8⅞	8⅞	-⅛
1400	Lafarge	$20	20	20	
4300	Laidlaw A	$11⅛	11	11⅛	+⅛
268200	Laidlaw B	$11⅛	10⅞	11⅛	+⅛
44800	Laurent Bk	$18¾	18⅝	18¾	
600	Laurent Gp	490	490	495	
3500	Lawson Mar	$9⅜	9⅛	9¼	
20600	Loblaw	$22	21⅞	22	+⅛
174500	Mackenzie	$7	6¾	6⅞	+⅛
300100	Macm Bl	$20⅛	19¾	19⅞	-⅛
79000	Magna IntA	u$42⅞	42	42⅝	+⅝
79900	Mpl Lf Fds	$13	d12⅝	12¾	-⅛
5100	Marit T&T	$21	20¾	20⅞	+⅛
9900	Mark Res	$6⅝	6⅝	6⅝	
281500	MDS Hlth B	$15⅞	15¾	15⅞	+⅛
300	Metall Min	$11¾	11¾	11¾	
300	Minnova	$16¾	16¾	16¾	
558700	Mitel Corp	u280	265	278	-7
124500	Molson A	$26⅛	26	26	-⅛
157000	Moore Corp	$21¾	21½	21⅝	+⅛
124000	Muscocho	u16	11½	11½	-2½
112500	Nat Bk Can	$9	8¾	9	+⅛
1300	Noma Ind A	$5⅛	5	5	
35000	NorandaFor	u$10½	10⅜	10⅜	-⅛
226000	Noranda	$20⅜	20⅛	20⅛	-⅛
1600	NorcnE.12	$25	25	25	
2000	NorcnMWtg	$17½	17⅜	17½	
1782300	Nth Tele	$48⅛	46½	47¼	-0⅛
3100	Northgate	76	75	75	
1698700	Nova Corp	$9⅛	8⅞	9⅛	+⅛
6700	Novaco WSr	$15¾	15¼	15¾	
89700	Numac Oil	u$7⅜	7	7⅜	+⅜
15800	Onex Corp	$8¾	8⅝	8⅝	
9400	Oshawa A	$23¾	23½	23¾	+½
422500	PWA Corp	63	58	60	+2
10900	Pagurian A	245	235	245	
13900	Pancdn Pet	u$40	39⅛	39¼	-¼
4000	Pegasus	$20⅞	20⅞	20⅞	-⅛
4200	PhilipEnv	$11¾	11½	11⅝	
400	Pioneer Mt	13	13	13	
204200	PlacerDome	$18¼	18	18	-¼
97700	Poco Pet	$6	5¾	6	+⅛
179600	Power Corp	u$17	16⅝	17	+⅜
43400	Power Fin	$21¾	21⅝	21⅝	
9600	Quebecor A	$17⅞	17⅞	17⅞	
554200	Ranger Oil	$5¾	5½	5½	
25900	Rayrock	$10¾	10½	10¾	
100	Reed Stan	$31	31	32¼	
1500	Reitman S	$18½	18½	20	
154900	Ren'ssnce	u$25¾	24½	25¾	+1⅛
73400	Repap Ent	330	310	330	+10
12100	Rio Algom	$19¾	19½	19¾	+½
165400	RogersCommB	$17	16¾	16⅞	+⅛
2000	Rothmans	$100	100	100	
930300	RoyalBkCan	$26⅛	25¾	25¾	-¼
123500	Ryl Oak Mn	u410	400	400	-10
892400	RylTrustco	75	69	73	+8
5900	StLawrCm A	$7½	7	7½	+¼
107500	SceptreRs	$7½	7⅜	7½	+⅜
400	ScottPaper	$12⅝	12¼	12⅝	+⅜
58500	Scotts Hos	$9½	9⅛	9⅜	
238300	Seagram Co	$35⅞	35¼	35⅜	-¼
13100	Sears Can	$7½	7¼	7½	+¼
10700	ShellCan A	$39¾	38½	39½	-¼
23100	Sherritt G	$7½	7⅜	7⅜	
150900	SHL Syst	$12¾	12⅜	12½	-⅛
23400	SNC Group	$13⅛	13	13	-½
43000	Sonora Gld	18½	18	19	
68300	Southam	$16⅝	16⅛	16½	-⅛
4800	Spar Aero	$17¼	17	17¼	
152100	Stelco A	252	237	238	-12
30400	TalismnEn	$19⅛	19	19⅛	+⅛
103500	Teck B	$18⅜	18⅝	19¼	+⅜
3100	Teleglobe	u$16⅜	16	16	-⅛
550400	Telus Corp	$12⅞	12¾	12¾	
546700	Thomson	$16	15¾	15⅞	
324100	Tor Dom Bk	$16⅞	16⅝	16¾	
14900	Torstar B	$24¼	24	24¼	
38100	TotCanOG	u$16¾	15	15¾	+¾
800000	Transcan P	$18⅝	18¼	18¼	-¼
243700	Transalta	$13¾	13½	13¾	+¼
29300	Trimac	$12½	12¼	12⅜	-⅛
59700	Trizec A	255	245	245	-10
39000	UAP A	$17	17	17	
2600	UnitedCorp	$29½	29⅛	29½	+¼
9000	UtdDominl	u$16¾	16⅜	16¾	+⅜
10000	Univa	$8⅛	8⅛	8⅛	
220600	Viceroy Rs	u$7½	6⅝	7½	+⅞
35100	W'coast E	$18⅝	18⅜	18½	
1800	Weston Geo	$38	37¾	38	+¼
2300	WIC B	$16⅝	16⅜	16⅝	-⅛

f - No voting rights or restricted voting rights

MONTREAL

4 pm close March 26

Sales	Stock	High	Low	Close	Chng
134800	BombrdierB	$10⅝	10⅛	10⅝	+⅜
35500	Cambior	$14⅛	13¾	14	
94200	CanImp Bk	$27¼	27⅛	27¼	
200	CanMarconi	$14½	14½	14½	
153100	Cascades	$6	5⅝	5¾	-¼
2700	DominTxt A	$9⅞	9⅝	9⅞	
2400	MacleanHnt	$12½	12⅜	12½	+⅛
50400	NatBk Can	$9	8¾	8⅞	
6700	Quebecor A	$18	18	17⅞	
39100	Teleglobe	u$16⅛	16	16⅛	
33800	Univa	$8¼	8⅛	8⅛	
30600	Videotron	$20	19¾	20	+⅛

Total Sales 25,020,300 shares

INDICES

NEW YORK

DOW JONES	Mar 26	Mar 25	Mar 24	Mar 23	1992/93 HIGH	1992/93 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3439.98	3461.32	3445.38	3461.86	3478.34 (10/3/93)	3136.58 (9/10/92)	3478.34 (10/3/93)	41.22 (2/7/32)
Home Bonds	106.51	106.56	106.24	106.17	106.58 (18/3/93)	98.41 (20/3/92)	106.58 (18/3/93)	54.99 (1/10/81)
Transport	1551.34	1553.55	1546.50	1551.14	1589.61 (8/2/93)	1204.40 (26/8/92)	1589.61 (8/2/93)	12.32 (8/7/32)
Utilities	239.67	241.74	240.42	238.36	241.99 (10/3/93)	200.74 (8/4/92)	241.99 (10/3/93)	10.50 (8/4/32)

DJ Ind. Day's High 3484.28 (3485.36) Low 3428.63 (3429.44) (Theoretical♣)
Day's High 3470.77 (3472.67) Low 3439.44 (3444.57) (Actual♣)

STANDARD AND POOR'S	Mar 26	Mar 25	Mar 24	Mar 23	1992/93 HIGH	1992/93 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	447.77	450.88	448.07	448.76	456.33 (10/3/93)	394.50 (8/4/92)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	513.22	517.97	513.81	516.12	524.99 (10/3/93)	470.91 (8/4/92)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	44.57	44.73	44.44	44.46	45.43 (10/3/93)	32.40 (8/4/92)	45.43 (10/3/93)	8.64 (1/10/74)
NYSE Composite	247.07	248.33	246.91	247.26	251.36 (10/3/93)	217.92 (8/4/92)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	419.47	419.12	418.28	419.56	423.06 (16/3/93)	364.85 (8/10/92)	423.06 (16/3/93)	29.31 (9/12/72)
NASDAQ Composite	681.54	681.01	674.36	678.04	708.85 (4/2/93)	547.84 (25/6/92)	708.85 (4/2/93)	54.87 (31/10/72)

	Mar 19	Mar 12	Mar 5	year ago (approx.)
Dow Industrial Div. Yield	2.95	2.98	2.99	2.80
	Mar 24	Mar 17	Mar 10	year ago (approx.)
S & P Industrial div. yield	2.49	2.49	2.44	2.82
S & P Ind. P/E ratio	26.06	26.13	26.62	28.78

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Bankers Life	6,531,800	24½	...
Merck	5,497,600	34⅛	- 1⅜
Nthn Telecom	4,005,900	37⅞	- 4¼
RJR Nabisco	3,835,600	7⅞	- ⅛
West Elec	2,833,900	15⅛	- ¼
Philip Morris	2,485,100	61⅞	+ ⅜
IBM	2,399,600	51⅞	+ ⅞
Glaxo	2,037,800	17½	- ⅛
ACE	1,942,000	28¾	+ ⅛
Life Parts	1,678,400	20⅛	+ ⅜

TRADING ACTIVITY

† Volume (Millions)	Mar 26	Mar 25	Mar 24
New York SE	219.130	250.020	271.880
Amex	16.315	18.069	14.437
NASDAQ	(u)	219.297	243.327
NYSE			
Issues Traded	2,474	2,465	2,486
Rises	847	1,130	886
Falls	1,002	741	1,004
Unchanged	625	614	596
New Highs	110	102	93
New Lows	14	24	31

CANADA

TORONTO	Mar 26	Mar 25	Mar 24	Mar 23	1992/93 HIGH	1992/93 LOW
Metals & Minerals	2821.27	2839.99	2950.00	2958.68	3238.87 (16/1/92)	2629.91 (17/11/92)
Composite	3599.74	3612.04	3603.70	3598.73	3656.00 (16/1/92)	3195.40 (14/10/92)
MONTREAL Portfolio	1829.75	1855.31	1856.62	1856.83	1937.59 (16/1/92)	1663.16 (14/10/92)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♣ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	Mar 26	Mar 25	Mar 24	Mar 23	1992/93 HIGH	1992/93 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1675.9	1680.7	1663.1	1659.5	1684.50 (22/5/92)	1357.20 (16/11/92)
All Mining (1/1/80)	666.5	659.4	661.3	661.0	726.80 (3/7/92)	545.49 (16/11/92)
AUSTRIA						
Credit Aktien (30/12/84)	336.18	333.40	331.63	332.01	458.57 (24/2/92)	291.41 (13/8/92)
Traded Index (2/1/91)	791.40	781.89	778.83	778.23	1099.43 (24/2/92)	692.96 (13/8/92)
BELGIUM						
BEL20 (1/1/91)	1253.66	1247.24	1246.91	1256.32	1256.32 (23/3/93)	1046.07 (2/9/92)
DENMARK						
Copenhagen SE (3/1/83)	272.94	272.86	273.18	273.39	365.29 (15/1/92)	250.42 (28/10/92)
FINLAND						
HEX General (28/12/90)	1010.5	1001.4	994.1	984.4	1012.20 (18/3/93)	541.09 (7/9/92)
FRANCE						
CAC General (31/12/81)	538.24	530.08	523.35	521.89	555.93 (13/5/92)	441.70 (7/10/92)
CAC 40 (31/12/87)	2025.78	2001.36	1954.57	1952.18	2077.49 (11/5/92)	1611.84 (5/10/92)
GERMANY						
FAZ Aktien (31/12/58)	656.84	654.99	652.54	652.13	725.26 (26/5/92)	565.61 (12/10/92)
Commerzbank (1/12/53)	1854.2	1848.60	1841.40	1839.70	2043.80 (25/5/92)	1594.60 (12/10/92)
DAX (30/12/87)	1661.29	1657.15	1650.45	1648.44	1811.57 (25/5/92)	1420.30 (6/10/92)
HONG KONG						
Hang Seng Bank (31/7/64)	6341.25	6246.87	6212.19	6117.95	6506.00 (9/3/93)	4301.78 (3/1/92)
IRELAND						
ISEQ Overall (4/1/88)	1478.04	1457.29	1441.21	1420.85	1478.04 (26/3/93)	1094.88 (19/10/92)
ITALY						
Banca Com. Ital. (1972)	486.92	487.51	485.59	487.51	551.59 (6/2/92)	354.93 (16/9/92)
MIB General (4/1/93)	1078.0	1078.0	1074.0	1077.0	1186.00 (2/3/93)	982.00 (11/1/93)
JAPAN						
Nikkei (16/5/49)	18788.70	18764.92	18450.68	18491.62	23801.18 (6/1/92)	14309.41 (18/8/92)
Tokyo SE (Topix) (4/1/68)	1426.2	1414.02	1395.43	1397.91	1763.43 (6/1/92)	1102.50 (18/8/92)
2nd Section (4/1/68)	1806.95	1778.48	1765.2	1764.13	2469.85 (6/1/92)	1502.77 (19/8/92)
MALAYSIA						
KLSE Composite (4/4/86)	(c)	(c)	(c)	634.42	660.35 (5/11/92)	546.63 (14/1/92)
NETHERLANDS						
CBS TtlRtn.Gen.(End 1983)	325.2	323.4	323.4	324.6	326.10 (19/3/93)	274.00 (8/1/92)
CBS All Shr (End 1983)	218.6	217.6	217.6	218.4	220.80 (19/3/93)	189.70 (25/8/92)
NORWAY						
Oslo SE (Ind) (2/1/83)	787.23	777.94	776.06	768.65	787.23 (26/3/93)	532.48 (26/8/92)
PHILIPPINES						
Manila Comp (2/1/85)	1451.01	1452.57	1460.30	1443.25	1580.85 (11/6/92)	1083.01 (17/2/92)
SINGAPORE						
SES All-Singapore (2/4/75)	417.45	(c)	415.78	415.87	421.27 (24/2/93)	351.41 (21/10/92)
SOUTH AFRICA						
JSE Gold (28/9/78)	1153.0♥	1175.0	1121.0	1143.0	1327.00 (21/1/92)	746.69 (10/11/92)
JSE Industrial (28/9/78)	4478.0♥	4480.0	4457.0	4466.0	4589.00 (4/5/92)	3836.00 (19/10/92)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	659.02	662.69	666.66	666.85	709.77 (9/1/93)	459.07 (21/8/92)
SPAIN						
Madrid SE (30/12/85)	238.65	235.65	234.46	234.35	268.51 (28/2/92)	178.48 (5/10/92)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	997.1	986.2	982.3	983.0	1039.00 (9/3/93)	639.00 (5/10/92)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	956.2	948.5	950.1	956.5	965.60 (19/3/93)	748.59 (8/1/92)
SBC General (1/4/87)	738.0	728.1	731.5	735.6	741.90 (19/3/93)	596.40 (26/8/92)
TAIWAN**						
Weighted Price (30/6/66)	4602.71	4652.68	4654.68	4647.23	5391.63 (30/1/92)	3098.43 (9/1/93)
THAILAND						
Bangkok SET (30/4/75)	867.44	876.06	886.7	889.82	898.44 (25/1/93)	667.84 (19/5/92)
WORLD						
M.S. Capital Intl.(1/1/70) $	532.0*	528.0	525.8	528.2	542.10 (7/1/92)	487.50 (9/4/92)
Euro Top-100 (26/6/90)	943.80	922.70	928.76	929.59	976.55 (25/5/92)	772.52 (5/10/92)

**Saturday March 20: Taiwan Weighted Price 4,573.58, Korea Comp Ex. 668.75
♥ Subject to official recalculation.
*Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Friday March 26, 1993

	Stocks Traded	Closing Prices	Change on day
Isuzu Motor	3.1m	435	+32
NEC Corp	3.0m	894	+59
Mitsubishi Heavy	1.7m	600	+36
Furukawa Elec	1.7m	603	-4
Hitachi	1.6m	836	+45
Fujitsu Ltd	1.5m	650	+20
Oki Electric Ind	1.2m	465	+10
Tokyu Corp	1.1m	825	+56
Tokyu Land Corp	1.1m	615	+85
Ricoh Co	1.1m	673	+53

FT MANAGED FUNDS SERVICE

● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an interesting portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071-379-0444.

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OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

GUERNSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	Yield Gross	City-line
R & H Fund Managers Ltd				
LRW Sterling Fd	£11 38	11.86	-	44489
BF Offshore Inc Fd Ltd	£12 39	12 91	-	48580
MAC Offshore Fd	£9 88	10 82	-	48450
Natton Mines Wrt S/S	£11 93	12 26	-	48581

JERSEY (SIB RECOGNISED)

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-line
AIB Fund Managers (CI) Ltd						
PO Box 468 St Helier Jersey						0534 36633
AIB Currency Funds Ltd						
Intl Managed Bond	5		£- 22.8073	22.8146	-	47337
Managed Capital Bd	5		£- 22.7204	22.7380	-	47754
AIB Greenwell Currency Fund Limited						
Stlg Mngd Currency	5		£-	11 1081	-	44685
Sterling Currency Fd	5		£-	10 7164	-	44683
Ecu Currency	5		Ecu-	11 1674	-	46562
US Dollar Mngd Curr	5		$-	21 8959	-	47336
Barclays International Funds						
PO Box 152 St Helier, Jersey CI						0534 67888
Australian Eq (Inc)	5¼	1 077	1 081	1 158	0 9	44738
Global Income (Inc)	5¼	0 556	0.558	0.595	2 6	44739
Global Resources	5¼	0 460	0.465	0 497	0 2	44742
Currency Funds						
Stlg Premium Income			£10 05	10 06xd	5 4	47926
Sterling			£-	23 90	5 2	44718
US Dollar			$-	32 85	1 8	44719
Deutschemark			DM-	61 91	7 2	44720
Yen			Y-	4239	1 8	44721
Managed Multicurrency			£- 15 83	16.19	-	44722
Managed Multicurrency			$- 26 14	27 08	-	44723
Bond Funds						
Sterling Bond	3½		£ 0 43	0.454	9.0	44724
Capital House Fund Mgrs (CI) Ltd (0800)H						
PO Box 189, St. Helier, Jersey						0534 74689
Capital House International Growth Funds Ltd ◊						

	Bid Price	Offer Price	Yield Gross	City-line
Perpetual UT Mngrs (Jersey) Ltd				
Offshore Intl Gwth Fd	$3.8737	4 1188	-	45591
Offshore Japanese Gwth Fd	$1 0464	1 1110	-	47680
Offshore Am Gwth Fd	$6.7817	7.2070	-	45892
Offshore Emerging Cos	$4 3126	4.5830	-	45583
Offshore European Fd	$1 5468	1 6436	-	45594
Offshore Asn Smaller Mkts	$0 9502	1 0000	-	-
Offshore Global Bond	$1 0058	1 0478	-	-
Offshore Global Bond Acc	$1.0058	1 0478	-	-
Offshore Far Estrn Fd	$2.6802	2.8521	-	45595
Offshore UK Growth Fd	£2.1416	2.2760	-	45596
The Portugal Fund Limited				
Lloyds Bank Trust Company (Channel Islands) Ltd				
NAV Mar 19		$4 34	-	47465
Royal Bk of Scotland Fd Mngrs (Jersey) Ltd				
Ivory Growth Fund	£16 46	16.71	1 43	45838
LFM Defensive Strtgy	£12.21	12 87	-	41863
Royal Trust Intl Fd Mngt Ltd				
Sterling Fxd Int Fd†	101 0C	102 00	6 75	45738
Intnational Bond Fd†	$1 161	1.173	5.12	45740
†Prices on Mar 24 Next dealing Mar 31				
Schroder Mngt Services (Jersey) Ltd				
Schroder Money Funds Ltd				
Sterling	£37 0860		5.11	45783
US $	$48.9836		1 82	45784
D-Mark	DM85 0335		7 49	45785
Swiss Franc	SFr78 4030		3.98	45786
Yen	Y5190.03		1 83	45787
Scimitar Worldwide Money Fund Ltd				
Sterling	£25.9782		6.84	45808
US $	$37 4431		2.46	45809
D-Mark	DM82 0334		7 19	45810
Swiss Franc	SFr80.6308		5.51	45811
Japanese Yen	Y7727.4382		2.81	45812
Australian $	A$42 0158		4 76	45813
Canadian $	C$34 6108		6 18	45814
Ecu	Ecu16.4978		8.78	45815
US$ Managed	$39.2238	40.4388	2.44	45816
Sterling Managed	£24.5364	25.2873	4.01	45817
Scimitar Worldwide Selection Fd Ltd				
Equity Class Funds				
American	$16.33	16.28	-	45778

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Eyes on French franc

DEALERS will keep a close watch on the French franc this week, following the second round of the National Assembly elections in France, *writes James Blitz.*

In recent weeks, there has been a growing feeling that the accession to power of a right-wing government in Paris will coincide with another speculative attack on the French currency. A landslide victory for the RPR/UDF coalition has long been discounted, but the new administration's commitment to the *franc fort* policy is certain to be tested.

But dealers are uncertain over when exactly the pressure on the franc might come, if it comes at all.

The franc's immediate future may depend on when the Bundesbank lowers interest rates again. There was some disappointment last week that the central bank continued to offer funds to commercial banks at an unchanged repo rate of 8.25 per cent. There are expectations that this rate will be cut this week, possibly when the Bundesbank council meets on Thursday.

But the pressure on the franc may not come until the summer.

Mr Christopher Potts of Banque Indosuez in Paris says: "The danger point for the franc is not the next two weeks, but two months down the road.

"It is difficult to suggest that the new French government could break with the strong franc policy this week. They will have no choice but to maintain the policy. However, the dangers will increase if French interest rates can't be brought down sharply in the next two months."

Mr Gerard Lyons of DKB International believes the most likely outcome to the crisis is that the new government will maintain the commitment to *franc fort*, patiently waiting for German interest rates to come down.

However, he believes there is a 30 per cent probability that the markets will force a devaluation, possibly because tensions elsewhere in the European exchange rate mechanism will spill over.

£ IN NEW YORK

Mar.26	Close	Previous Close
£ Spot	1.4865-1.4875	1.4745 1.4755
1 month	0.38-0.37pm	0.38 0.36pm
3 months	1.03-1.01pm	1.03 1.00pm
12 months	3.34-3.27pm	3.33 3.23pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

OTHER CURRENCIES

Mar 26	£	$
Argentina	1.4885 - 1.4910	0.9990 - 1.0000
Australia	2.0975 - 2.0995	1.4100 - 1.4110
Brazil	36220.2 - 36223.4	24309.0 - 24311.0
Finland	8.8030 - 8.8535	5.9150 - 5.9350
Greece	328.120 - 334.690	221.370 - 225.800
Hong Kong	11.5140 - 11.5260	7.7305 - 7.7315
Iran	2200.00*	1485.00*
Korea(Sth)	1158.40 - 1177.10	798.20 - 796.40
Kuwait	0.45550 - 0.45650	0.30600 - 0.30700
Luxembourg	50.15 - 50.25	33.65 - 33.75
Malaysia	3.8555 - 3.8770	2.5990 - 2.6000
Mexico	4.6260 - 4.6280	3.1050 - 3.1070
N.Zealand	2.7800 - 2.7930	1.8725 - 1.8750

CURRENCY RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

BASE LENDING RATES

	%
Adam & Company	6
Allied Trust Bank	6
AIB Bank	6
●Henry Ansbacher	6
B & C Merchant Bank	13
Bank of Baroda	6
Banco Bilbao Vizcaya	6
Bank of Cyprus	6
Bank of Ireland	6
Bank of India	6
Bank of Scotland	6
Barclays Bank	6
Brit Bk of Mid East	6
●Brown Shipley	6
CL Bank Nederland	6
Citibank NA	6
City Merchants Bank	6
Clydesdale Bank	6
The Co-operative Bank	6
Coutts & Co	6
Credit Lyonnais	6
Cyprus Popular Bank	6
Duncan Lawrie	6
Equatorial Bank plc	6
Exeter Bank Limited	7
Financial & Gen Bank	7
●Robert Fleming & Co	6
Girobank	6
●Guinness Mahon	6
Habib Bank AG Zurich	6
●Hambros Bank	6
Heritable & Gen Inv Bk.	6
●Hill Samuel	6
C. Hoare & Co	6
Hongkong & Shanghai	6
Julian Hodge Bank	6
●Leopold Joseph & Sons	6
Lloyds Bank	6
Meghraj Bank Ltd	6
McDonnell Douglas Bk.	6
Midland Bank	6
Mount Banking	6
NatWestminster	6
Nykredit Mortgage Bnk	6.5
●Rea Brothers	6
Roxburghe Bank Ltd	6
Royal Bk of Scotland	6
●Smith & Williamson Secs.	6
Standard Chartered	6
TSB	6
Unibank plc	6
●United Bk of Kuwait	6
Unity Trust Bank Plc	6
Western Trust	6
Whiteaway Laidlaw	6
Yorkshire Bank	6

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	Mar 26	Mar 25	Mar 24	Mar 23	Mar 22	Mar 19	1992/93 High	1992/93 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2852.9	2852.8	2860.6	2861.1	2863.9	2900.1	2957.3	2281.0	2957.3	986.9
FT-SE Mid 250	3099.0	3113.6	3136.0	3145.2	3144.0	3164.7	3154.7	2157.8	3154.7	1379.4
FT-SE-A 350	1414.7	1416.1	1421.6	1422.5	1423.5	1438.5	1457.1	1103.1	1457.1	664.5
FT-A All-Share	1398.13	1399.64	1405.00	1406.06	1407.31	1421.34	1436.22	1086.13	1436.22	61.92
FT-SE Eurotrack 100	1147.31	1133.06	1130.66	1131.55	1129.55	1145.37	1200.27	937.42	1200.27	900.45
FT-SE Eurotrack 200	1213.80	1200.17	1202.55	1203.95	1204.64	1223.70	1248.79	1010.09	1248.79	938.62
FT Ordinary	2214.6	2221.3	2235.4	2236.2	2242.5	2268.6	2299.5	1670.0	2299.5	49.4
FT Government Secs.	96.34	96.50	96.60	96.99	96.85	97.56	98.04	85.11	127.40	49.18
FT Fixed Interest	112.02	112.14	112.27	112.84	112.94	113.29	113.63	97.15	113.63	50.53
FT Gold Mines	109.4	110.6	104.8	105.7	106.3	101.2	160.6	60.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	W'k% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		16¼xd	-6.1	68c	FeMyAuNv	12.1	1503
Allegheny & W	♥	570p	8.2	38c	–	–	–
Amdahl		440p	-15.2	10c	NoFeJaAu	31.1	–
Amer Cyanamid		33⅞	-1.5	$1.85	MrJeSeDe	4.3	–
Amer Express		19⅞xd	0.2	$1.00	FeMyAuNv	29.9	1594
Amer T & T		38⅝xd	-1.6	$1.32	FeMyAuNv	29.12	1597
Ameritech		51	—	$3.68	FeMyAuNv	28.3	–
BankAmerica		39⅜xd	-4.6	$1.40	MrJeSeDe	18.2	1744
Bankers NY		49⅛xd	-1.5	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		38½	2.8	$2.68	FeMyAuNv	4.7	–
BellSouth		37¼	-2	$2.76	FeMyAuNv	5.4	–
Bethlehem Steel	♥	12xd	-5	–	MrJeSeDe	6.2	1821
Bowater		1584pxd	-2.9	60c	OcJaApJy	9.3	1884
CPC		30⅝xd	-2.6	$1.28	JaApJyOc	28.3	2263
Cadiz Land Inc	♥	115p	—	–	†	–	–
California Engy		1435p	0.1	–	–	–	–
Chase Manhattan		23½xd	-1.6	$1.20	FeMyAuNv	28.1	2109
Chrysler		26⅝xd	-1.4	60c	ApJyOcJa	18.3	2135
Citicorp		19⅝xd	—	–	–	23.10	2141
Colgate-Palm		44⅞xd	-1.2	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		1812p	3.1	80c	DeMrJeSe	31.5	–
Dana		31⅞xd	3.1	$1.60	MrJeSeDe	24.2	2306
Data General		847p	-3.6	–	–	–	–
Decora Inds	♥	145p	—	–	†	–	–
Dun & Brad		48⅝	-3	$2.28	MrJeSeDe	13.2	–
Eaton		58½	3.4	$2.20	FeMyAuNv	2.2	2410
Echlin		16⅞xd	-3.4	70c	JaApJyOc	28.12	3046
FPL		25⅞xd	-4	$2.44	MrJeSeDe	28.8	–
Ford Motor		35⅝	1.7	$1.60	MrJeSeDe	28.1	2615
Gen Elect		60⅝xd	1.6	$2.52	JaApJyOc	4.9	2676
General Host	♥	621p	-1.1	34c	†	13.12	–
Gillette		40½xd	-3	72c	MrJeSeDe	27.1	2695
Hasbro		20⅞	—	24c	FeApJyNv	1.8	–
Honeywell		22⅞xd	-3	89c	MrJeSeDe	29.2	2919

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution

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FT Share Service

The following changes have been made to the FT Share Information Service: Additions: JF Indonesia Fd Wts (Inv Trusts) and McInerney (Prop). Deletions: URS Intl (Americans), Holmes Protn and Rentaminster (Business Servs), AB Electronics (Electronics), Beauford 7p Prf (Eng General), Wardle Roberts (Food Retailing), Acorn Inv (Inv Trusts), TVS Entmnt Ord and 7.4p Prf (Media) and Printech (Packg & Paper).

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4 pm close March 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992/93 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	10¾	AAR Corp	0.48	4.0	21	226	12	11⅞	11⅞	
28½	16	A L Labs A	0.16	0.8	38	469	24	23⅞	24	+⅛
66⅞	52⅞	AMP Inc	1.60	2.7	21	1497	60⅞	59⅝	59⅝	-1⅛
80¼	54⅞	AMR			9	4206	63¾	63	63⅛	+⅜
2⅜	1⅞	ARX			10	17	1⅞	1⅞	1¾	
53½	29¾	ASA	2.00	5.0	26	887	40⅜	39⅝	39¾	
34¼	22⅝	Abbott Lab	0.60	2.5	16	12217	25	23¾	23¾	-½
13⅞	10¼	AbitibiPr	0.50	4.0	4	3	12½	12⅜	12⅜	-¼
11⅝	10⅛	ACM Gvt In	0.96	8.6		273	11¼	11⅛	11⅛	-⅛
10⅞	9	ACM GvOpp	0.79	8.5		187	9⅜	9¼	9¼	-⅛
9¾	8½	ACM Gvt Sp	0.79	8.3		198	9½	9⅜	9½	+⅛
11⅜	9⅞	ACM Gvt Se x	0.96	8.6		207	11⅛	11	11⅛	+⅛
10⅞	8⅝	ACM Man	1.08	10.2		47	10¾	10½	10⅝	
12⅞	8⅝	ACM Managd	0.78	8.3		410	9⅜	9¼	9⅜	
11¾	4¾	Acme Cleve	0.40	5.1	16	68	8	7⅞	7⅞	
9¼	3¾	Acme Elect			767	90	7⅞	7¼	7⅞	+⅜
33¼	12⅛	Acuson			12	450	13¼	13	13⅛	
22⅛	18⅛	Adams Expr	0.48	2.3	1	55	21¼	21⅛	21⅛	-⅛
52⅞	29½	Ad Micro	3.00	5.9		22	50⅞	50¼	50¼	-⅛
24⅜	7½	Ad Micro P	3.00	13.2	8	4289	23⅛	22⅝	22¾	-⅜
9⅛	4⅞	Advest Grp	0.16	2.3	14	52	7	6⅞	6⅞	-⅛
48⅜	33	Aegon ADR	1.35	2.8	9	4	48¼	48¼	48¼	
53¾	38	Aetna Lf	2.76	5.9	32	654	47⅜	46⅝	46⅝	-⅝
14½	8⅜	Ahlb A	0.24	2.0	30	600	12¼	12	12	-⅛
36⅞	24	Albac	0.44	1.2	15	2562	35⅞	35⅜	35¾	+⅜
22⅛	13	Ahmanson	0.88	4.5	9	897	19¾	19½	19½	-⅛
22½	4	Aileen Inc			21	36	6⅛	6⅛	6⅛	-⅛
49½	36½	Air Pr Chm	0.86	1.9	17	754	45⅜	44⅝	44⅝	-⅝
29⅞	12½	Airbnc Frt	0.30	1.4	183	252	22⅜	22	22	-⅝
24⅞	11¼	Airgas Inc			33	182	24¼	24	24⅛	+⅛
14¼	8⅛	Airlease	1.60	11.7	11	64	14	13⅝	13⅝	-⅜
104	99	AlaPw8.16	8.16	8.0		4	z104	104	102½	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1992/93 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13⅛	9¼	Bell Indus	0.40	3.5	284	94	11⅜	11⅛	11⅜	[illegible]
57½	42⅝	BellSouth	2.76	5.0	16	1585	55½	54¾	54¾	[illegible]
46⅞	30⅞	Belo AH A	0.56	1.4	20	229	39⅛	39⅛	39¼	[illegible]
29⅝	19¾	Bemis	0.50	2.1	22	207	24⅞	24¼	24¼	[illegible]
59½	50	Benef 4.3P	4.30	7.4		22	58½	58	58½	[illegible]
68⅞	56¼	Benef	2.80	4.2	11	591	67½	67¼	67¼	[illegible]
23⅛	17¾	Benetton A	0.33	1.7	9	180	19⅝	19	19¼	[illegible]
1⅜	⅞	Benguet B	0.04	4.9	11	91	⅞	¾	[illegible]	[illegible]
14⅛	10¾	Berry Petr	0.60	4.8	28	353	12½	12⅜	12⅜	[illegible]
48½	14⅛	Best Buy			37	514	49⅜	46⅛	46¾	[illegible]
28¾	20¾	Beth St 2	2.50	9.2		40	27¼	26¾	27¼	[illegible]
55⅞	40⅝	Bethlhm Pf	5.00	9.4		21	53¼	53	53¼	[illegible]
20	10	Bethlhm St	0.40	2.3	6	3189	17⅞	17¼	17½	[illegible]
60¼	46¼	Betz Lab			19	328	53¼	52⅝	53	[illegible]
14¾	7¼	Beverly En			278	3398	11⅛	11	11⅛	[illegible]
26½	16	Biocraft	0.10	0.6	162	6	20⅛	19⅞	20⅛	[illegible]
27¾	13½	Birmingm S	0.40	1.6	25	528	25¼	24¾	25	[illegible]
26⅞	14⅝	Black & D	0.40	2.1	16	1891	19⅝	18⅝	18⅝	[illegible]
32¼	23⅞	Black H PL	1.28	4.9	14	29	26⅛	25¾	25⅞	[illegible]
11⅜	9⅞	BlckrckAdv	0.83	7.9		80	10½	10⅜	10½	[illegible]
10⅞	8⅜	BlckrckInc	0.85	9.7		533	8⅞	8¾	8¾	[illegible]
11⅛	9¾	BlckrckTgt	0.80	7.9		358	10¼	10⅛	10⅛	[illegible]
42⅝	30⅛	Block H&R	1.00	2.7	25	1901	38	37⅜	37⅜	[illegible]
20⅛	11⅛	Blockbustr	0.06	0.3	24	5390	19⅛	18¾	18¾	[illegible]
8¼	7⅝	Blue Chip	0.76	9.2		38	u8¼	8¼	8¼	[illegible]
12⅛	6½	BMC Ind			8	24	9⅞	9⅞	9⅞	[illegible]
54⅝	33½	Boeing	1.00	2.9	7	7423	35¾	35	35	[illegible]
26⅜	18⅜	Boise Casc	0.60	2.4	5	1074	26⅛	25½	25½	[illegible]
6¾	3⅝	Bolt B & N	0.06	1.2	3	144	5	4⅞	5	[illegible]
24⅛	12⅝	Bordn Ch U	1.24	7.8	15	893	16¼	15⅝	16	[illegible]
34⅞	24⅛	Borden Inc	1.20	4.5	18	1578	26½	26⅜	26½	[illegible]
23⅞	16¼	Bostn Celt	1.25	7.3	19	13	17⅜	17⅛	17⅛	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

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- J -

- K -

- L -

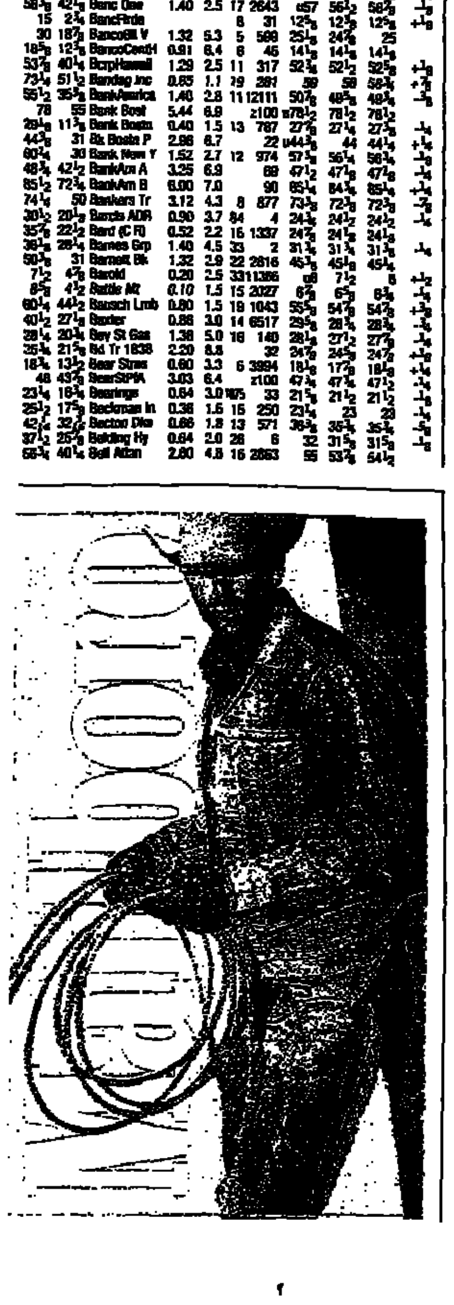
- M -

- N -

- O -

- P - Q -

- R -



Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close March 26

AMEX COMPOSITE PRICES

4 pm close March 26

MONDAY INTERVIEW

First in the fight for fairness

Herman Ouseley, new chairman of the Commission for Racial Equality, talks to **Alan Pike**

The Commission for Racial Equality will next week gain its first black chairman and, as a direct consequence, its first chairman to have suffered insults, harassment and violence because of the colour of his skin.

Herman Ouseley goes to the commission from the equally demanding job of chief executive of the London borough of Lambeth where, when appointed in 1988, he set another record as Britain's *first black local authority chief* executive.

Reaching the top of powerful organisations, public or private, is still relatively rare for members of Britain's ethnic minority communities. As someone who was born in Guyana, came to Britain as a child in 1957 and grew up as part of an immigrant family in south London, he shares a personal history with many of Britain's black people.

"My experiences are ones that are mirrored by many black people living in the inner cities, although I have been luckier than most in being able to side-step the difficulties that a lot of people have not been able to escape from," he says.

"I have suffered having bricks and bottles thrown through our window and other forms of racial harassment. I have been beaten up on my way home from school by groups of white youths and called a black bastard. Things have happened for no reason other than what I look like.

"I have failed interviews when I felt I should have been successful, but how could I prove it was discrimination? The majority of people who are discriminated against cannot prove it. I have been picked up by the police for no reason. I have sued the police for wrongful imprisonment and won."

Ouseley's origins give him an appreciation of the lives of ordinary black people in Britain that none of his predecessors in the CRE chairman's office – however committed to its goals of eliminating racial discrimination and promoting equality of opportunity – could totally share. This does not mean that the new chairman will arrive determined simply to be a strident, one-dimensional advocate of black rights. Ouseley has a strong sense of balance, and it shows as he continues to review the influences that will help determine his style in the post.

"At the other end of the spectrum, I have had the experience of being a black person in a powerful position. Other black people have expected me to be able to do things for them, while white people have thought I might possibly discriminate against them or overlook them. I have had to be seen to be fairer than fair to white people, while bending over backwards to help black people and avoid being accused of having sold out."

He takes over the commission at a difficult time. Unemployment, even when the economy is flourishing, is disproportionately high among Britain's ethnic minority communities; the recession is aggravating the problem and worsening other social tensions. Ouseley's annual budget at the commission will be limited to a modest £15m and the government plans no growth in real terms at least up to 1995-96. With only about 200 staff and limited funds, it must be selective in its activities, which include giving advice, legal assistance and mounting investigations into allegations of racial discrimination.

Under Sir Michael Day, its outgoing chairman, the CRE has demanded stronger race relations legislation but ministers have not rushed to oblige. Ouseley recognises the commission's limitations. "It is a creature of statute and the government controls its finances. People who think the CRE should be challenging every institutional practice in the world should realise it is impossible. But the commission none the less has a very important job to do in helping to promote a society based on respect, fairness, tolerance and justice."

He supports the commission's call for stronger race relations laws, saying that, while the present act had proved a powerful weapon, weaknesses have been exposed. In some respects, says Ouseley, the legal position on race relations was weakened during the 1980s by other legislation. He cites the 1988 Local Government Act, which he says gives local authorities insufficient power to ensure that contractors pursue adequate equal opportunities employment policies. The value of positive action programmes in overcoming discrimination in employment has, he says, been proved in the US. And he says black people find it "painful" that the powers of the Northern Ireland Fair Employment Commission to challenge discrimination on religious grounds in the province are tougher that those available on the mainland to attack racial discrimination.

A conversation about race relations with someone whose experience is in the inner cities inevitably touches the fragile, fraught question of relationships between the black community and the police. Mr Paul Condon, the new Metropolitan Police commissioner, made racism the subject of his first public speech, voicing determination to outlaw it in both the community and the force. Ouseley, welcoming strides he believes the police service has made in recognising that it has problems in its relationships with black communities, again takes care to inject balance. "Equally, the minority communities have problems with regard to crime and attitudes. They have to face up to these. The law has to be upheld fairly, and people have got to recognise that if they are stepping outside it, they are likely to fall foul of the police."

'I have been beaten up...called a black bastard'

PERSONAL FILE

- **1946** Born in Guyana.
- **1957** Family emigrated to Britain.
- **1963** Began work in local government town planning administration.
- **1981** Principal race relations adviser, Greater London Council.
- **1984** Assistant chief executive, London borough of Lambeth.
- **1986** Director of education and later chief executive, Inner London Education Authority.
- **1988** Chief executive, Lambeth.
- **1993** Chairman, Commission for Racial Equality.

How does the CRE's new chairman, a role model of black achievement, view the status of ethnic minority communities in Britain today? In the 36 years since Herman Ouseley and his family came to London alongside many other Commonwealth citizens, predictions about how the arrivals would influence their new society have varied widely. Prophets of doom foretold streets alive with serious and repeated race riots; some optimists assumed that there would be an almost magical and effortless assimilation leading to equality of opportunity. Neither has happened. Ouseley compares individual examples of success with the scale of the problem still to be addressed.

"You see many Asian names on lists of very wealthy people in Britain. There are half a dozen black members of parliament compared with none five years ago. There are now about five black local authority chief executives, while I was the only one in 1988. But there are more racial attacks and there is more racial violence. There is a high proportion of black people on the unemployment register, in penal institutions and among the homeless. The real problem in race relations is that the worst afflictions affect the black community to a disproportionate level. Black people bare a greater share of the misery and poverty in our society."

These are big issues, but Ouseley believes they can be tackled through specific, targeted action. He has a reputation as a strong and brave manager – his parting gift to Lambeth was a highly publicised report alleging fraud and corruption in the council, now being studied by the government – and he emphasises the scope for clearly thought-out management action as a tool for improving race relations. In 1979, 6 per cent of Lambeth council's employees were from ethnic minorities. Now the figure is 48 per cent, reflecting the ethnic composition of the borough. He would like to see more employers in both the public and private sectors following the example.

"This would not have happened unless people in the organisation had been persuaded that it needed to happen. It required managerial will and political will.

"Many examples of success by members of Britain's ethnic minority communities – whether we regard them as token or significant – are as a result of institutions saying: 'We cannot go on like this. We must make a positive effort.' There must be more positive efforts to create a structure where people who are being denied opportunities can play their full part in society, unconstrained by race."

Pessimism is a Euro-disease

MICHAEL PROWSE
on
AMERICA

Whenever I read a British newspaper, some politician seems to be trying to explain away economic hardship by referring to the "world recession". Don't believe it. Much of Europe admittedly is peculiarly depressed; lengthy dole queues seem to be accompanied nearly everywhere by weak political leadership and public apathy. There are few historical precedents for the continent's combination of ailments, which includes civil war in the former Yugoslavia, German xenophobia and a wave of corruption trials in Italy. Even France, labouring to defend the franc, was recently described by the Washington Post as "rarely in a more disgruntled mood".

In the 19th century, Europe could be forgiven for mistaking itself for the world, most of which it either owned or governed. But today it is ludicrous to pretend that the gloom and doom afflicting Europe is a global phenomenon. In much of the rest of the world the economic outlook is promising and the quality of political leadership as high – if not higher – than in recent decades. Outside Europe, many people are eagerly awaiting the 21st century, which they expect to mark a huge improvement on the past 100 war-torn years.

To put Euro-gloom in perspective, consider first the outlook for the US. The economy has been growing steadily for nearly two years following a brief and relatively mild contraction in the winter of 1990-91. Growth at an annual rate of nearly 5 per cent at the end of last year will not be sustained; but most forecasters are confidently predicting several years of growth of at least 3 per cent. The unemployment rate peaked at 7.7 per cent (far below the double-digits feared in Europe), is now 7 per cent and is expected to fall to about 5.5 per cent – effectively "full employment" – by the end of President Bill Clinton's first term.

Unlike the cautious British electorate, Americans had the courage to vote for change last November and are now benefiting from a revival of the legendary Yankee "can do" spirit. The Democratic Congress has moved swiftly to endorse the White House's economic plan, meaning that excessive budget deficits will be curbed, albeit slowly. Mr Clinton will shortly unveil his strategy for reforming the nation's flawed healthcare system. This will be followed, probably next year, by proposals to improve the quality of US education and worker training.

If the outlook for the US is bright, it is positively dazzling in much of east Asia. The region remains politically immature, but during the 1980s it grew more than twice as fast as either Europe or the US. Most forecasters expect continued dynamism, even allowing for Japan's serious (but surely temporary) difficulties.

"Fuelled by China's economic boom," argues Merrill Lynch, the Wall Street brokerage, in a recent circular, "Asia-Pacific growth should reach almost 8 per cent in 1993 following 7 per cent last year." East Asia as a whole is now a more important trading partner for the US than Europe – which is one reason why the US media typically quotes the dollar in terms of yen rather than D-marks.

Euro-pessimists must also contend with improved economic performance throughout the developing world, which enjoyed economic growth of about 6 per cent last year and may grow nearly as fast this year. The world has not been in, nor is heading for, a recession, let alone a depression. Even in industrialised countries, annual growth has not yet dipped below 1 per cent and will probably accelerate next year to more than 2 per cent.

Viewed from Washington, the gloom pervading Europe is puzzling. For four decades, the continent was divided by an Iron Curtain and needed the protection of a US military shield. Yet in the mid-1980s when the Kremlin was still building its stockpile of SS20 missiles and Berlin was a lonely outpost in communist east Germany, western Europe was far happier than today. It enjoyed political stability and economic prosperity and seemed prepared to make the modest sacrifices needed to secure the potentially huge benefits of greater economic and monetary integration. The reduced burden of military spending following communism's collapse and the enhanced opportunities for trade with the new democracies of eastern Europe ought to be creating still greater regional prosperity rather than a torrent of mealy-mouthed complaints.

European politicians pretend that the world is facing intractable economic problems comparable with those of the 1930s. Sky-high unemployment and lakes of budgetary red ink are seen as all but inevitable. The success of east Asia and the US shows that this is hogwash. If Europe is in secular decline, it has only itself to blame; it has simply lost sight of the virtues – thrift, hard work, flexibility and risk-taking entrepreneurship – that underpinned its startling success in the 19th century.

With hindsight western Europe perhaps grew too comfortable in the cosy, controlled world created after the second world war, when its destiny was effectively in the hands of the US and the Soviet Union. On its own again for the first time since the inter-war years it is again showing a singular lack of political vision and will.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 28.03.93: Pool purchase price £/MWh	Final Prices for Trading on 28.02.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	25.04	18.35	18.35
0100	--.--	27.05	28.53
0130	--.--	27.05	28.48
0200	25.04	27.05	28.45
0230	25.04	27.03	28.40
0300	25.04	26.28	27.65
0330	24.53	24.66	25.98
0400	24.53	24.66	25.98
0430	20.92	20.77	21.97
0500	18.55	20.77	21.98
0530	17.55	20.30	21.49
0600	17.55	20.30	21.49
0630	17.55	20.30	21.49
0700	17.55	20.30	21.49
0730	17.58	20.30	21.50
0800	18.44	20.30	21.51
0830	18.52	20.30	21.52
0900	34.01	27.00	28.54
0930	34.01	27.00	28.55
1000	34.01	23.18	24.52
1030	34.01	23.18	24.51
1100	24.68	23.81	25.17
1130	24.68	27.03	28.48
1200	29.76	27.03	28.47
1230	29.76	27.03	28.48
1300	29.76	27.03	28.48
1330	24.68	27.00	28.49
1400	23.51	23.81	25.18
1430	21.05	18.61	18.61
1500	17.55	18.26	18.26
1530	17.55	18.26	18.26
1600	18.60	18.14	18.14
1630	18.60	18.14	18.14
1700	18.60	18.35	18.35
1730	18.60	23.81	25.14
1800	18.60	23.81	25.13
1830	18.60	27.03	28.43
1900	18.60	27.03	28.38
1930	21.06	27.05	28.36
2000	23.51	27.05	28.37
2030	23.51	27.00	28.35
2100	25.00	24.30	25.58
2130	[illegible]	[illegible]	25.58
2200	[illegible]	[illegible]	25.58
2230	[illegible]	[illegible]	24.80
2300	[illegible]	[illegible]	18.25
2330	[illegible]	[illegible]	18.08
2400	[illegible]	[illegible]	17.84

Prices are determined for every half-hour in each twenty-four hour period. [illegible]

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 29.03.93: Pool purchase price £/MWh	Final Prices for Trading on 01.03.93: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.51	19.47	19.47
0100	17.51	23.85	25.18
0130	25.00	27.00	28.40
0200	21.29	27.00	28.35
0230	21.29	27.00	28.35
0300	25.00	27.00	28.35
0330	25.00	27.00	28.35
0400	21.29	24.78	26.08
0430	21.29	23.39	24.65
0500	17.59	18.62	18.62
0530	17.84	19.11	19.11
0600	17.84	19.11	19.11
0630	17.97	19.84	19.84
0700	22.11	23.90	25.21
0730	25.13	28.05	29.48
0800	25.30	28.10	29.53
0830	28.40	28.31	29.77
0900	28.40	28.78	30.34
0930	25.30	29.82	30.88
1000	25.30	32.38	34.12
1030	25.30	32.45	34.18
1100	25.30	32.92	34.73
1130	26.30	32.13	34.05
1200	25.30	36.85	38.98
1230	25.30	36.40	38.44
1300	24.43	32.80	34.58
1330	25.13	30.22	31.78
1400	23.41	29.91	31.41
1430	23.41	29.75	31.23
1500	23.41	29.70	31.18
1530	23.41	28.05	29.47
1600	23.41	29.90	31.43
1630	28.30	29.08	30.70
1700	28.40	31.95	33.95
1730	28.40	33.87	36.24
1800	28.30	48.55	50.03
1830	22.92	48.33	51.80
1900	22.64	47.09	50.20
1930	22.64	39.32	41.53
2000	22.64	30.54	32.12
2030	27.90	27.88	29.82
2100	27.90	24.14	25.38
2130	22.48	23.90	25.16
2200	22.11	24.09	25.35
2230	20.90	23.00	24.24
2300	20.90	19.17	19.17
2330	17.64	18.65	18.69
2400	17.57	18.00	18.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.66/MWh becomes 1.866p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed [illegible]

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Wreckage of old socialism

IAN DAVIDSON
on
EUROPE

Opinions differ on the reasons for the wreckage of the Socialist party in the French general elections last week. Some say they failed to hold down unemployment; some say they betrayed socialism, both in their conservative economic policies, and in their luxuriant corruption; and some blame the party's founder, President François Mitterrand, for all of the above, for overplaying his hand, and for outstaying his welcome.

Yet whatever the reasons, the result of the election is so extreme, that it will have the effect of a political earthquake. The Socialists' colossal defeat may yet mark a paradigm shift in the dialectic of French politics, which in turn could have lessons for other democratic countries in Europe.

One thing the Socialists know for certain: they must start again from the bottom and from the beginning. The party cannot pretend to carry on as before, as if this were a *little local difficulty; if it is to* recover a significant role in French politics, it will need a new leader, a new message, and quite probably a new name as well.

Choosing a new leader has suddenly become urgent. President Mitterrand is totally identified with the party's rise and fall, and at the age of 76 he is in a poor position to help it recover; in any case, he may not want to try. Recovery can only come from a new leader, and that probably means a choice between Mr Michel Rocard, the party's "virtual" candidate for the presidency, and Mr Jacques Delors, president of the European Commission.

A new leader will need a new message. In 1983 the Socialists tacitly abandoned most of the paraphernalia of unreconstructed socialism; after the election of 1988 they progressively abandoned the rest; but they have yet to come up with a new programme.

Mr Rocard has moved to grapple with the problem, by his sensational call for the creation of a centre-left movement, reaching from reformed Communists to moderate centrists; but he has yet to define the platform it would have.

There are essentially two reasons why the Socialists had to abandon the crude version of their creed. Old-fashioned class-based politics, the proletariat against the bosses, has long ceased to hold an adequate mirror to today's reality. What with mortgages and foreign travel, the decline of smoke-stack industries and the rise of the service sector, modern society has become more complex and less oppressive.

Second, no one believes in crude socialism any more. It was a disaster in the Soviet empire; it has failed whenever it has been tried in the west. Moreover, in 1983 the French Socialists had to choose between crude socialism and Europe: they discovered to their dismay that they had no choice but Europe.

Socialists would claim that there is more to their message than the ideological excesses of nationalisation and the command economy. They remain committed to a distinctive set of social-moral concerns: protection of the under-privileged; social welfare, health, housing, and education; the rejection of money and individual self-interest as dominant values. In short, some verson of *liberté, égalité, fraternité*.

The problem is that these concerns may now be on the wrong side of the historic and geo-strategic wave. The traditional socialist canon focused on the fight against the unfair distribution of wealth; today's urgent need is wealth creation, and today's scourge is again structural unemployment. The socialist canon calls for social protection for the weak, the ill, the retired, the unemployed; today's problem is knowing *how to pay for these things.*

The first reason for the radical shift in today's priorities, is that the socialists have won the moral argument, at least in most of western Europe: Christian Democrats and Social Democrats both accept the general case for social solidarity; France's conservative parties would not dare suggest dismantling the welfare state. The unsolved problem is that demand for welfare is by its nature unlimited.

The second reason is the development of global markets. In a national economy, the exploited may be able to force a more favourable deal out of the exploiters; that option is not available if the "exploitation" comes from other, more competitive, economies.

Last year, the Dutch Central Planning Bureau* produced a range of forecasts for the next 25 years; one of the scenarios was for a trade crisis, with the world breaking up into three main protectionist blocs. It may not happen; but there is no denying that talk of protectionism is increasingly widespread.

If western Europe remains committed to liberal global trade, it will have to improve its competitiveness much faster than in the past. This means channelling much larger resources into education and training; the alternative strategy of driving down workers' wages might produce a Third World work-force, but it would still not enable them to compete with an advanced Asian economy.

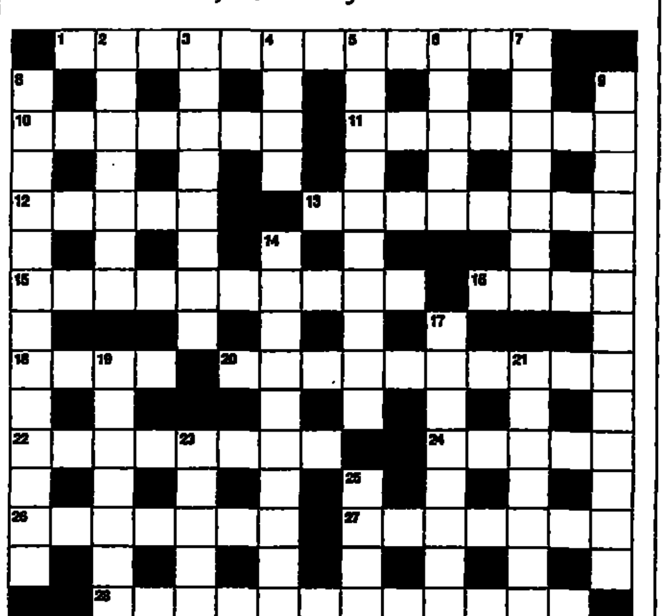
Education and training will be slow to deliver. Meanwhile, competition will force the European Community to *review either the budgetary* costs of its welfare programmes, or the costly rigidities of its labour laws, or both. Moreover, welfare costs will rise steeply with the ageing of the population: in 1990 the over-64s represented 21 per cent of the population; by 2020 they will be 31 per cent.

This is not a cheerful prospect. It is especially uncheerful for a political leader who is trying to work out a new political message for the 1990s, and who still wants to think of himself as a Socialist.

* *Scanning The Future, Central Planning Bureau, SDU publishers, The Hague, 1992*

CROSSWORD

No.8,113 Set by GRIFFIN



ACROSS

1 Works after a day and is OK (12)
10 Vessels in river stretch (7)
11 Ann switched to cutting material (7)
12 Order chief to be earlier (5)
13 One who is there at ten, running water (8)
15 Break about ten men in anger (10)
16 Ring coppers once someone starts scraps (4)
18 Sweetheart crazy about alcoholic drink (4)
20 Banned all mixes containing love drug (10)
22 One camping out of habit? (8)
24 Had moved down about a quarter (5)
26 Jack and Mark refuse to vote (7)
27 Wet chaps love to sit around inside (7)
28 Learned men put little money into his student grants (12)

DOWN

2 Uses fruit with one in (7)
3 Ringo knocked six-footer unconscious (8)
4 We left fellow standing and ran away (4)
5 Always loyal, notice missing lady (10)
6 One times union leader carrying in cat (5)
7 Terrible lie Eddy submitted (7)
8 Moody relief worker to alter name when wrong (13)
9 Making sense of an informal agreement (13)
14 I'm an individual student concealing a cold (10)
17 Caution maid on upsetting mum (8)
19 It stars original painters, perhaps (7)
21 Continuous pole on end (7)
23 Are achievements within grasp (5)
25 Frost upset a Moslem chieftain (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday April 10.

Singapore continues to dazzle the world with its rapid economic growth and its prosperous and stable society. But there are signs of strain as it faces ever keener competition with its equally dynamic southeast Asian neighbours. **Andrew Gowers** reports

Murmurings of anxiety

"A COUNTRY is like one big corporation. Its gross national product is equivalent to a company's revenue and its population its employees. A national economy competes with other national economies for market shares in the world. If it fails to compete, its population or employees will not be paid well. If it is competitive, its standard of living will rise." (Prime Minister Goh Chok Tong, October 15 1992).

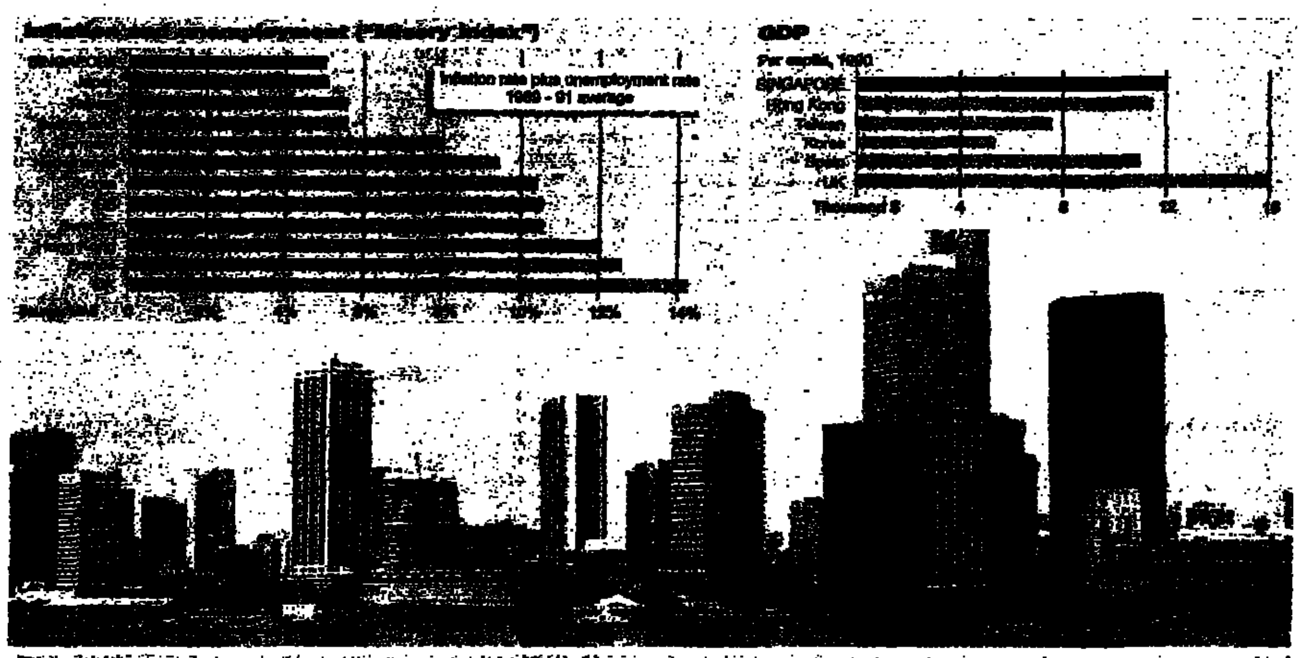
It may not be immediately obvious from the sleek facade of Singapore Inc. But among senior managers of the world's most successful corporate state, there are unmistakeable, and quite deliberate, rumblings of unease about the future these days.

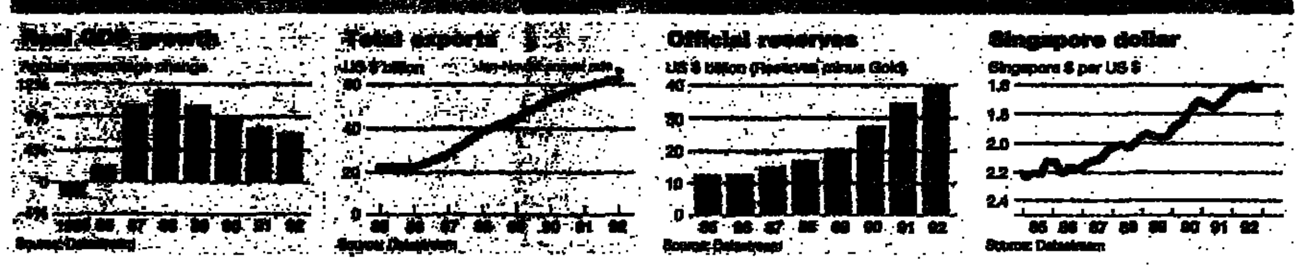
Mr Lee Kuan Yew, founder and now non-executive chairman, complains of a lack of enterprise among his employees and compares the "corporation" unfavourably with its buccaneering rival to the north, Hong Kong. Mr Goh Chok Tong, his successor as chief executive, worries aloud about Singapore's position in the accelerating race for trade and investment in Asia and frets that the workforce may be going soft or getting greedy. On cue, a chorus of middle managers takes up the call for a reorientation of corporate strategy, another efficiency drive, a fresh push into overseas markets.

At first glance, it is hard to see what the fuss is about. Singapore remains, by any standard, a phenomenal case study in economic achievement. After nearly three decades of almost uninterrupted rapid expansion, its gross domestic product continues to grow at annual rates around 6 per cent, without significant inflation. On a per capita basis, it is richer than any of the other Asian "dragons", and has already overtaken several countries in Europe.

It boasts full employment, remarkable political stability, an incorrupt and efficient public administration, and the highest home ownership and national savings rates in the world. Foreign investment continues to pour in, to the extent that an island state of 3.1m people hosts one foreign company per 1,000 inhabitants. And Singaporeans enjoy a quality of urban life without parallel in the region.

Yet if the message from the top is to be believed, now is no time for resting on laurels. The constantly reiterated theme of ministerial and prime ministerial speeches over the past year is that the challenges of the next decade will be as stiff as anything Singapore has faced since it was thrust out of the Malaysian Federation and into sovereign independence in 1965. The task is not only to stay several jumps ahead of competitors within Asia but to upgrade the economy to a point where it can claim a place among the developed nations.





"We are like someone being chased by tigers with a cliff in front," said Mr Goh in a speech to trade unionists last October. "The tigers are closing in fast but the cliff is difficult to scale. The tigers are the dynamic economies like Thailand, Malaysia, Indonesia and China. The cliff is the formidable challenge posed by the developed countries."

The prime minister's colourful warnings are exaggerated for effect. He and Mr Lee, who as Senior Minister is still considered by many as the ultimate authority despite having relinquished the premiership in late 1990, like to give the impression of being engaged in a constant struggle to maintain the values which helped propel Singapore out of poverty in a generation – its legendary political discipline and the quiescence of the workforce in pursuit of general prosperity.

Yet implausible as their scare stories may sound, there are legitimate reasons for at least mild concern over Singapore's medium term prospects. In the first place, the battle to stay commercially competitive is becoming fiercer all the time.

Singapore is still attracting foreign investment at an enviable pace – manufacturing investment in fixed assets reached a record S$3.48bn last year, 21 per cent up on the 1991 figure. But it has to work at it against formidable constraints.

With less than 3 per cent unemployment and the population more or less static, there is a chronic labour shortage, and for political reasons Singapore does not want to import any more immigrant labour than it has to. One result is that wages have been outpacing productivity growth in recent years, in the process eroding Singapore's competitive edge. "We've got to worry all the time," says Mr Goh. "If we lose our competitive edge, I think the whole house may collapse. To give an example, if we are not competitive, say, with China, we'll find that China will suck in our investments very quickly....a hollowing out of the economy may take place....This anxiety element is something we've got to live with."

The second broad area of concern is Singapore's place among the dynamic economies of Asia as a whole. From mainland China in the north and India in the west to south-east Asian countries next door, markets with vast potential are opening up to outside investors.

But Mr Lee, in particular, has taken to issuing stern warnings that Singapore is in danger of failing to capitalise on this rapid growth. Singaporeans, he complains, are a staid and timid lot who prefer to stay at home and work as middle managers rather than venturing abroad in search of business opportunities. It is time for them to develop an entrepreurial spirit, "go regional" and build an external dimension to the country's economy in the way that South Korea, Hong Kong and Taiwan have done.

There are delicious ironies in Mr Lee's new campaign, since the conservatism and unimaginativeness he attributes to his subjects spring in no small measure from the tightly controlled society that he has created. Since Singaporeans are schooled from birth in Confucian virtues of obedience, discipline and collective endeavour, since the government controls the main levers of economic power, and since they have for years heard disapproving lectures from their leaders about the corruption and maladministration of other Asian countries, it is scarcely surprising that they show little initiative in doing business abroad.

Fear of failure – *kiasu* in the Hokkien Chinese dialect – remains a powerful feature of Singaporean society, reflected in everything from the ultra-cautious way it regulates its financial centre to bankruptcy laws of a severity unparalleled anywhere in the industrial world. Those Singaporeans who have broken out into the wider region often did so in spite of the system rather than because of it, and many of them show little inclination to return home. Nevertheless, it is significant that the nation's patriarch has seen fit to air this issue now.

Mr Lee's speeches betray an awareness that to stay abreast of breakneck development in the region at large, Singapore itself will have to change.

Unwittingly perhaps, Mr Lee's concerns about Singapore's need to spread its wings abroad also underline what is the biggest domestic political challenge facing the ruling People's Action Party over the next few years: how to keep fulfilling the ever-rising expectations of Singaporeans themselves.

Singapore may be to all intents a one-party state, but without doubt the PAP owes its unbroken 34 years in government principally to the prosperity it has engendered, and to its success in giving Singaporeans a stake in their own society.

As one foreign diplomat put it: "The PAP knows that whatever grip it now exercises on the state machinery its political dominance stands or falls on its record of creating and distributing wealth."

And here, the omens have not been universally favourable for the government of late. Mr Goh is still smarting from the blow the PAP received in the elections of August 1991, when its share of the vote fell to 61 per cent – a setback only partly redeemed by the PAP's 72 per cent score in a by-election late last year.

Although the ruling party still enjoys support that governments in the west can only dream of, there can be no disguising the decline in its share of the vote through the last four general elections. Next time, or the time after that, the PAP may have to reckon with a considerably larger presence of the opposition parties in parliament.

This would scarcely be a disaster. But it does imply a period of adjustment for an elite unaccustomed to challenges to its rule. And that process will not be rendered any easier by the doubts that have unexpectedly arisen in recent months surrounding the succession to Lee Kuan Yew.

Late last year, it was announced that both Mr Lee's

☐ Continued on Page 2

IN THIS SURVEY

Currencies in this survey are denoted as S$, for Singapore dollars, or $ for US dollars

AS RECENTLY as 1980, there was no such thing as a Singaporean computer components industry. Today the island republic is the world's largest manufacturer of computer disk drives, accounting for more than half of world production, and a big supplier of a wide range of other computer peripherals, semiconductors and electronics equipment.

In the early 1970s, the textile industry accounted for some 17 per cent of manufacturing employment in Singapore. Now the figure is well below 10 per cent, and declining.

These are two examples of the extraordinary swirl of change that continues to invigorate the Singaporean economy. They help to illustrate how a country with no natural resources, a miniscule land area and a static indigenous workforce has managed to carve out its position as a leading competitive player in a number of international industries, from consumer electronics to oil refining and petrochemicals.

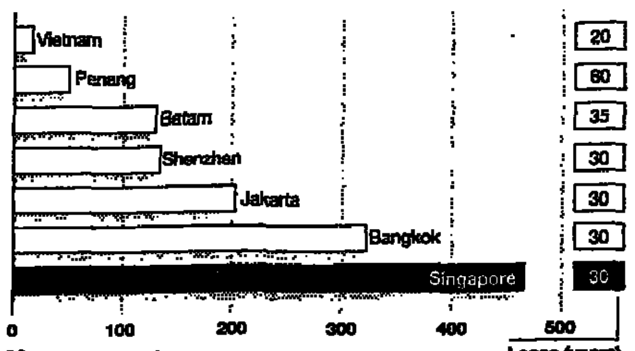
The Austrian economist Joseph Schumpeter would have recognised what is happening. Writing in the first half of this century, he called it "creative destruction" – the process of unremitting innovation and renewal in an economy affected by the free play of market forces. In Singapore's case, the market is the world, and it has exposed itself to – and benefitted from – the full force of international competition by maintaining a stance towards foreign investment as open and unrestrictive as you will find anywhere. Some 3,000 multinationals have operations of some kind on the island, more than 750 of them in manufacturing.

Foreign investors are as much as ever the motor of Singapore's development. Initially attracted by its low-wage workforce and by heavy public investment in an ultramodern infrastructure – for two decades investment has represented 35 to 40 per cent of annual gross domestic product, higher than in any other industrialised or industrialising country including Japan – they are constantly encouraged by government to spend on upgrading their plants with the latest technologies. The aim is to create a virtuous circle in which higher labour productivity earns higher wages, and low-wage, labour-intensive businesses either die or move offshore.

Andrew Gowers describes the business ethic that sucks in the cash

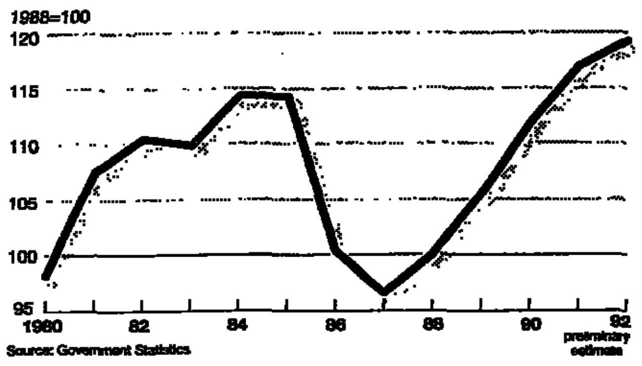
Investors' paradise

Industrial land prices in 1991/92



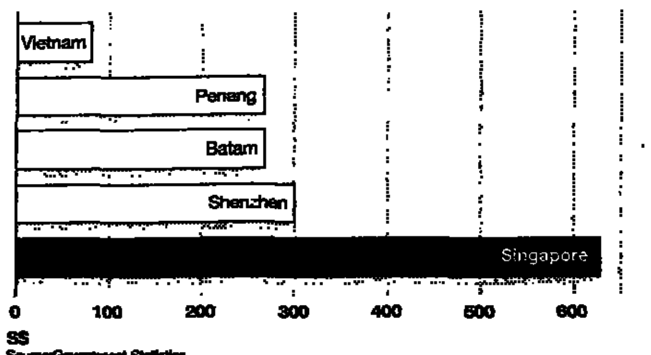
Source: Government Statistics

Unit business cost of manufacturing



Source: Government Statistics

Starting wages of production workers



Source: Government Statistics

Singapore is uniquely unsentimental about preserving industries which have lost their competitive edge: the timber business, for example, once a local mainstay, is now virtually extinct, while textile manufacturing on the island has moved inexorably to the high-value end of the market while spinning off low-cost operations to Malaysia and other neighbouring countries.

Their place has been taken by productive, technology-driven industries such as consumer electronics, telecommunications equipment and precision engineering.

The last 20 years provide countless examples of this shift – as always, under the guiding hand of government bodies such as the Economic Development Board. Having established itself as an oil refining and bunkering centre, Singapore moved into bulk petrochemicals and is now assiduously developing higher-value products such as speciality chemicals and pharmaceuticals.

The trick consists not just in attracting new investors: more importantly, it involves encouraging heavy investment by those already installed, so that technology companies such as Texas Instruments that came to Singapore in the early days have repeatedly upgraded their locally-manufactured product mix. And the search goes on: Singapore has remained especially alert to global changes in the consumer electronics industry. It is now positioning itself as an important production base for digital compact cassette players and notebook computers.

Mr Philip Yeo, the hyperactive EDB chairman and Singapore's industrial czar, reckons that of every fresh investment dollar that comes to the island, two thirds represents spending by companies already in place. The increasing quality of those investments is evident from the pattern last year. Manufacturing investment commitments reached a record S$3.5 bn, 21 per cent up on 1991, and the prospective yield on those projects, in terms of gross value-added per worker, rose to S$240,175 – more than three times the existing average in the manufacturing sector.

This constant drive for higher value-added makes sense given Singapore's severe physical and demographic constraints. It is also getting more urgent all the time in view of the intensifying competition for investment among low-wage Asian economies, which are themselves gradually following Singapore "up the value chain".

To understand why, compare labour and land costs in Singapore with those elsewhere in the region. The starting wage for a production worker in Singapore is S$630 a month; in Penang, Malaysia, it is S$264; and in Vietnam it is S$80. In Singapore, a square metre of industrial land costs 10 times what it does in Penang and 30 times what it does in Vietnam.

Unable to compete on wages, land or on the size of its domestic market, Singapore has quite deliberately priced itself out of the business of low-cost manufacturing; partly for political reasons, the government will not prop up labour-intensive industries by allowing companies to import more foreign workers. Instead, it has been forced to develop alternative attractions to retain the loyalty of its multinational partners.

As Mr Goh Chok Tong, the prime minister, put it last year in terms that might be a corporate mission statement: "We must be competitive in combining the whole range of factors and produce a package that is better than what our competitors can offer. This requires hardworking and highly skilled workers, good management and government, a politically secure environment, good physical and social infrastructure.

"It also requires us to be alert to changes in technology, investment and market trends. It means constant restructuring of our economy to have a mix of industries in which we are competitive."

What this means in practice was mapped out in a strategic plan produced by a committee of business and labour leaders, government officials and academics in October 1991. It recommended a series of measures aimed at improving the skills of the workforce, at encouraging companies to automate and shift labour-intensive activities offshore, and at getting multinationals to think of Singapore as a managerial and service hub for South-east Asia rather than just a production base.

On the Rapid Transit rail system: speed, youth and dynamism

Specific moves in train include:

● Research and development. In co-operation with the multinationals, Singapore is now engaged in a big effort to boost R & D activities on the island. It has established a National Science and Technology Board to oversee a proliferation of research institutes in a wide variety of disciplines from microelectronics to biotechnology and, by providing financial incentives, to double R & D spending to 2 per cent of gdp by 1995. In the same period, it wants to raise the proportion of scientists and engineers in the workforce to 40 per 10,000 workers from the present 28. That compares with R & D spending of 3 per cent of gdp in Japan and 1.8 per cent in South Korea.

● Recruitment and training. The EDB is mounting a targeted recruitment drive overseas with a view to bringing engineers, computer scientists and other skilled manpower to Singapore from Europe, North America, Russia and other Asian countries including India. The aim is twofold: to pre-empt a looming skills shortage in the region as a whole, and to compensate for the fact that the government finds it difficult to lure Singaporeans into factory jobs as opposed to what they perceive as the more glamorous services sector. "We have to make a more concerted effort to recruit people now because the other countries in the region are growing," says Mr Suppiah Dhanabalan, trade and industry minister.

In addition, Singapore is pitching to become a regional training centre for multinationals in Asia. The US communications giant Motorola, for example, recently sent a team to train on the island from the plant it has established in China. The commercial spinoff for Singapore is obvious. "That way, I can sell more components," says Mr Yeo.

● Regional investment. Singapore's attempt to push multinationals' low-cost, lower-skill operations offshore is now accelerating. Its main focus is the so-called "Growth Triangle", an unusual initiative to foster economic integration between Singapore, the southern Malaysian state of Johor and Indonesia's nearby Riau islands.

The EDB actively encourages investment in Johor, and Singapore is collaborating with Indonesia's Salim group to build industrial parks on Batam and Bintan, two islands in the Riau group. Attracted by the prospect of working with Singaporean expertise and efficiency and Indonesian wages, more than 30 companies have taken space on Batam, and exports from the plants already operational are growing fast.

Here, too, the gains for Singapore far outweigh any concern about lost investment, for companies establishing operations in Johor or Batam generally do so in order to perform more sophisticated tasks in Singapore.

There cannot be many examples of an industrialising country actively encouraging foreign investors to go elsewhere. The fact that Singapore does is a measure of its confidence both in the increasing sophistication of its economy and in the enticing prospects for growth in the wider region.

■ Electronics profile: SGS-Thomson

On the crest of a wave

SINGAPORE is continually worried about losing its competitive edge. Nowhere is this more keenly felt than in electronics, which accounts for almost 40 per cent of total manufacturing output and more than 40 per cent of domestic exports.

Concern focuses on rising wage levels and insufficient growth in productivity. But Mr Milivoj von Somogy, head of Asia Pacific operations for the European electronics giant SGS-Thomson, disagrees.

"In Singapore we can work 365 days per year. That's not possible in Europe. It's not only costs – it's the quality of labour we have here as well. And despite rising wages our total labour costs here are between $4 and $6 per hour – that's not so bad for the type of high tech work we are doing."

SGS-Thomson started low cost assembly operations in Singapore in 1969. In 1982 it built its first wafer fabrication plant and now produces about 100m pieces per month of various computer chips from its Singapore operations.

Though core technology development is still carried out in Europe, SGS-Thomson's Singapore operations now employ 1,500 to produce increasingly sophisticated so called "front end" products. Another 3,200 are employed in "back end" operations in nearby Malaysia.

"Initially low labour costs brought us to this part of the world," says Mr Somogy. "Now we can source the bulk of our materials here, there is the expertise available and most importantly sales in this region are growing so fast it's a problem to meet demand."

Other electronics businesses tell a similar story. Companies that in the 1960s were assembling black and white TV sets have evolved to design and manufacture a comprehensive range of final products, sub-assemblies, components and parts for both industrial and consumer electronics industries.

More than 250 electronics companies in Singapore produced an estimated S$31bn worth of goods last year, a 6 per cent rise over the 1991 figure. Products cover almost the entire electronics sector, from consumer goods to disk drives, semiconductors and printed circuit boards.

Singapore now accounts for about 50 per cent of total world output of computer disk drives, with about 18m unit drives valued at S$8bn produced last year. This represents an increase of 28 per cent in volume terms over the 1991 figure.

After an industry shakeout in 1991 and a dip in trade in the first half of 1992 overall industry growth surged by 13.9 per cent in the third quarter of the year, a trend which was continued through the end of 1992.

Strong growth is expected to continue through 1993, with an expected upturn in the US, Singapore's biggest export market, absorbing more than 40 per cent of total industry exports.

As the electronics industry has become more regionalised, Singapore has developed into the main electronics re-export centre in south-east Asia. Re-exports now account for about 25 per cent of Singapore's total electronics exports.

The electronics industry faces various challenges. Neighbouring countries – particularly Malaysia and Thailand – have successfully developed their own electronics industries and threaten Singapore's export competitiveness, particularly in consumer electronics. Singapore has continuously sought to upgrade its activities.

New electronics centres such as Penang in Malaysia are already tempting some companies to move certain operations out of Singapore. Some employers complain of an increasing incidence of "job hopping" among electronics workers. There is also concern about government restrictions on importing labour and the costs incurred by a special foreign workers levy imposed by the authorities.

Electronics is still a sector overwhelmingly dominated by the multinationals. But more efforts are being made to integrate local concerns into the production process. The government recently set up an Institute of Microelectronics to assist the local electronics industry in spearheading research and development and to train skilled R & D personnel.

Despite some problems investor confidence in Singapore's electronics industry continues to be maintained. Investment commitments in the industry in 1992 reached S$1.4bn – more than 40 per cent of total investment committed.

Companies such as SGS-Thomson realise that more investments and an ever stronger presence in the region are vital to take advantage of opportunities in the Asia-Pacific, the world's fastest growing market. "In terms of sales of our semiconductor market in the Asia Pacific has caught up with Europe," says Mr Somogy. "In the Singapore/Malaysia area our sales now exceed those of either France or Britain and are the same as those of Germany. China is opening up and presents a tremendous market. I don't see much change in the growth trend in this region for the next 10 to 15 years.

"We had 33 per cent growth in the Asia Pacific last year and expect a minimum of the same growth again. It's no longer a question of orders. Instead it's a question of whether we can supply fast enough."

Kieran Cooke

A country run like a big corporation

☐ Continued from Page 1

eldest son, Lee Hsieng Loon, and Mr Ong Teng Cheong, both deputy prime ministers, were being treated for cancer. The news shocked Singaporeans since it had been widely presumed that the former, a tough but not especially popular chip off the old block known everywhere as "BG Lee" in deference to his military rank, was being groomed as Singapore's prime minister in the not too distant future.

The government insists "BG" Lee is responding well to treatment and will be back at his desk soon.

But if the illness were to remove him permanently from the scene, the reins of power would continue to be held by a group of men without an obviously charismatic leader.

This is not an immediate problem. Mr Lee himself, now 70 but in apparently robust health, looks like being around for a good while longer. Mr Goh is an able administrator and is setting about trying to develop a more collegial – if not much more consultative – style of government.

But it does seem that, as it grows richer and better educated, as the generation that experienced the traumas of independence fades from the stage, and as income disparities widen, Singapore is becoming a more complex place to govern.

The fundamental questions are whether a society so regimented as Singapore's still is will develop the capacity both to nurture the creativity of its best and brightest and to channel the frustrations of the less privileged – and whether it will continue to adapt and prosper in a way that outlasts the man who founded and moulded it.

Behind the vibrant economic successes, frayed nerves are sometimes apparent, says **Andrew Gowers**

Sprinter at the front of the pack

LAST August, Singapore's *Business Times* newspaper received an unwelcome visit from officers of the government's Internal Security Department.

They questioned journalists, took away notebooks and computer files, and subsequently the paper's editor, Mr Patrick Daniel, was among four people charged under Singapore's official secrets act. His "crime": publishing a leaked preliminary estimate of the country's second quarter gross domestic product which showed annual growth to be lower than expected at 4.6 to 4.8 per cent.

With the trial of those accused still continuing, the precise explanation for this uniquely Singaporean story remains obscure. But the affair has taken its place in the public consciousness as a vivid reminder of the concern in the island state last summer over the economy.

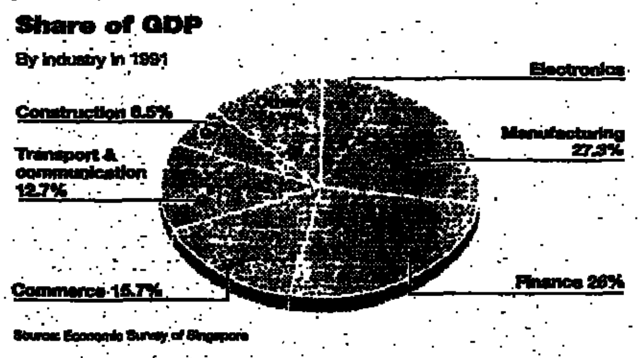
Growth was falling after the blow to confidence delivered by the Gulf war in 1990-91, the US economy which is the principal market for Singapore's exports was anaemic, the world consumer electronics industry on which a large chunk of Singaporean manufacturing depends was in a serious recession, and Singapore's attractiveness as a manufacturing location looked threatened by a sharp rise in unit labour costs.

To the government it all had an ominous ring: the last time there had been such a combination was in 1985, when Singapore experienced a serious recession – its only one since independence and an event seared into the minds of all Singaporeans.

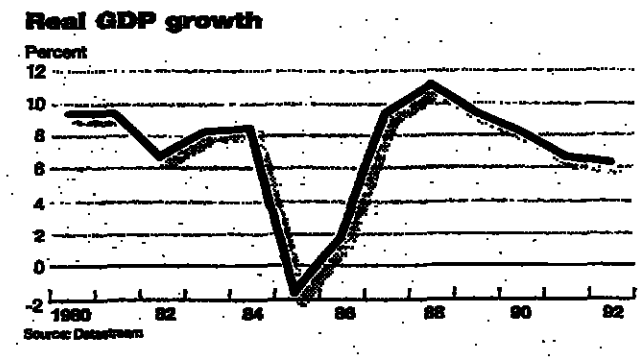
As it turns out, the fears were massively overdone. Growth has continued at a rate that the industrial countries can only envy, manufacturing output has recovered after a drop in the first quarter, exports are surging, the financial services sector has bounced back, the rise in labour and business costs has moderated, and foreign investment is still pouring in.

The government now reckons that the economy bottomed out in the third quarter of last year, and grew by 5.8 per cent for the year as a whole – admittedly a slower rate than Singapore has been used to over the past two decades but healthy even by comparison with the other newly industrialising economies such as Hong Kong (5 per cent) and South Korea (4.9 per cent). And the pace is accelerating: the government has just revised upwards its estimate for this year's gdp to show expansion of 6 to 7 per cent. In all seriousness, government ministers call it Singapore's "soft landing".

Manufacturing exports are again surging after a dip in the first quarter



Source: Economic Survey of Singapore



Source: Datastream

The country's success in steering through the threat of a sharp slowdown and putting itself back on the path of more rapid expansion results from a mixture of luck and judgment.

In the first place, the contraction in 1991 and the first half of 1992 would have been much worse but for deft deployment of government funds to fuel a domestic construction boom. The construction sector grew by 18 per cent last year, aided by a burst of public spending on infrastructure such as roads, the port, hospitals, schools and housing. Singapore remains in the fortunate position of enjoying a substantial budget surplus, which enables the government to turn the spending taps on or off at will.

Externally, strong growth in the south-east Asian neighbourhood also helped carry the Singaporean economy through the first half of 1992, enabling it to capitalise on its traditional role as a transport and communications hub. But the main motors for its subsequent acceleration were twofold:

- The unexpectedly strong recovery in America: non-oil exports to the US increased by an impressive 12 per cent in the second half. Although ministers do not expect performance to be sustained at quite that level in 1993, the US economy should be strong enough to offset weakness in Singapore's European and Japanese markets.
- Electronics exports. As maker of around half the world's computer disk drives and of components for a wide range of consumer electronics products, Singapore is uniquely exposed to the international fortunes of these industries. Slowdown in the markets of the industrialised world and the apparent saturation of demand for certain consumer electronics goods spread gloom in the first few months of 1992.

Today, whereas computer manufacturers everywhere are bleeding from a savage price war in personal computers, Singapore is benefiting from a resulting surge in demand for disk drives, integrated circuits and computer peripherals. And with new consumer electronics products beginning to pour back on to the market, it is poised to win a healthy slice of that action too.

Nevertheless, the worries being expressed last year have not vanished. The government frets constantly about maintaining Singapore's position in the contest for foreign investment, about the dangers of overheating in the labour and property markets, and about achieving a sustainable, as opposed to helter-skelter, rate of growth. It still has some reasons for concern. The most obvious is the unit cost of labour. Just a year ago, it looked as if a damaging gap was opening up between rapidly rising wages and much slower improvements in productivity: nominal wages rose by 9.2 per cent in 1991, productivity by a miserable 1.5 per cent. In the first quarter of last year, productivity actually fell by 0.9 per cent.

The picture has improved considerably since then: last year, wages grew by 7.5 per cent and productivity by an average of 3.1 per cent as manufacturing output recovered.

Nevertheless, with unemployment below 3 per cent of the workforce, there is precious little slack in the economy. Moreover, with the service sector playing an increasingly important role, it is becoming more difficult all the time to keep productivity rising in line with wages.

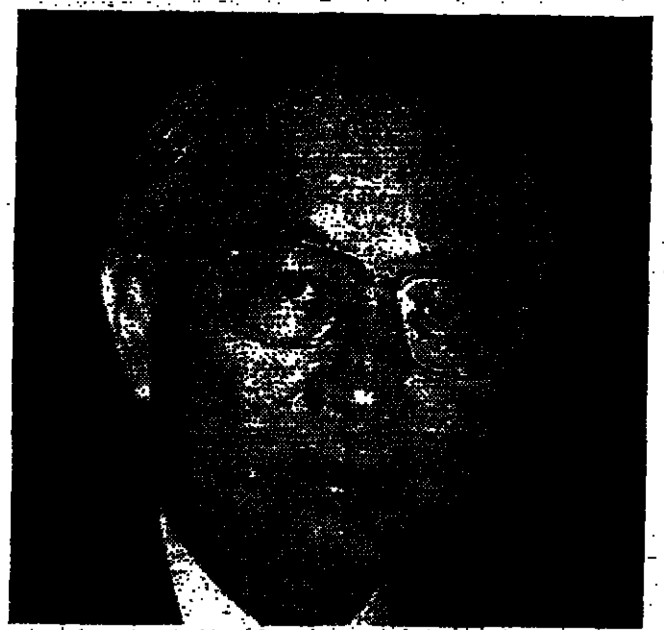
Lack of space, people and resources are the main constraints

As Dr Richard Hu, finance minister, put it in his budget speech last month: "Efforts to improve productivity and restructure the domestic economy to squeeze more out of each unit of resource will face diminishing returns, as we are already starting from a relatively high base."

The government is working hard to keep business costs under control. In the budget, for example, Dr Hu announced a cut in corporate tax next year from 30 to 27 per cent, to be offset by the introduction of a 3 per cent goods and services tax (GST), and proclaimed the government's intention to get corporate taxes down to 25 per cent in due course.

But ministers are well aware that Singapore's constraints of space, manpower and resources will for the foreseeable future impose a natural limit on the rate at which they an afford to let the economy grow. "Our population is not growing, but if we can sustain productivity growth of 3-4 per cent we should be able to sustain 5-6 per cent economic growth," says Mr Suppiah Dhanabalan, trade and industry minister. "Anything more would lead to overheating."

The real answer to such problems in the long term – enunciated every time a minister opens his mouth in public these days – lies not in further boosting the domestic economy but in capitalising on opportunities in the wider region. The challenge Singapore faces is to equip itself for a major investment drive into the rapidly growing economies around it in Asia, and in this task it has only just begun.


Richard Hu: managing his ministry like a giant corporation's finances

Dr Richard Hu, finance minister, is a rarity among politicans, says **Kieran Cooke**

Technocrat from the private sector

DR RICHARD HU gives the impression of being that rarest of animals – an apolitical politician.

Though an MP since 1984, Dr Hu is first and foremost a technocrat, groomed in the private sector and eventually parachuted into high office. That was 10 years ago. "One thing with politics is the loss of personal freedom ... I've been so long out of the private sector I can hardly remember what it was like."

Dr Hu, 66, gained his Ph.D. in chemical engineering from Birmingham University and went on to lecture in England before returning to Singapore in 1960. For more than 20 years he was with Shell, rising to become chief executive of their operations first in Malaysia and then in Singapore.

Dr Hu's position would be envied by many of his colleagues round the world. Since the mid 1980s Singapore has been running budget surpluses. With foreign exchange reserves officially put at US$40bn Singapore's fiscal position does not cause the finance minister too many sleepless nights.

Furthermore the nature of Singapore government – with its emphasis on a unified, corporate approach – allows Dr Hu to manage his ministry in very much the same way as he would the finances of a giant corporation. "The political part of this job is much less intense than it would be in the UK or elsewhere," says Dr Hu.

Nonetheless Dr Hu shares the views of Singapore's top leadership when it comes to key policy issues. New tax structures were recently introduced, with corporate and personal taxes lowered. The central aim of the changes is to keep Singapore competitive.

"The competition for investment is going to be even greater in future. Hitherto closed economies are opening up ... protectionism is raising its head everywhere, there's a great shortage of capital. Making our investment climate more attractive is crucial."

'Closed economies are opening up and competition for investment will be greater than ever'

Dr Hu is keenly aware of the changes taking place in the region, with Singapore's neighbours already nibbling away at the island republic's export markets. "We now consider Malaysia as one of our major competitors. It's extraordinary how Malaysia has grown its industrial sector so fast."

Dr Hu went to China in 1965 and returned again recently. "The change is amazing. The money is trickling down and consumer demand is shooting up. The same thing will happen in Vietnam."

Dr Hu feels there is a good chance of an economic upturn in the US – still Singapore's main export market. He feels Japan has a great capacity for recovery – if it can solve its political problems. But monetary developments in Europe are viewed with dismay.

"One of the unfortunate by products of liberalising financial systems is that the door is opened to speculators. As we've seen, they can knock central banks down. Modern communications aids the process. It's so easy to do now. That's one of the reasons we are reluctant to free the Singapore dollar."

Singapore has one of the highest per capita savings rates. Dr Hu defends what is criticised as an over-cautious fiscal regime but liberalisation of savings is now being investigated.

"As long as you preserve financial independence half your problems are solved ... if you borrow too much you lose sovereignty."

The financial centre has an enviable reputation, says **Andrew Gowers**

Island of integrity

FOR foreign bankers, brokers or fund managers, life in Singapore can be frustrating.

They see the local economy continuing to grow at a cracking pace, and grumble about the relative lack of opportunities to invest in it.

They covet the huge pool of official reserves and other funds under the government's control, knowing that there is little chance for outsiders to profit from helping to manage them, and envy Singapore's own cash-rich but highly conservative banks. And they chafe under the rule of the country's monetary authority, whose regulatory regime must outrank in severity that in any other of the world's money centres.

Some gaze wistfully towards Hong Kong, and moan at Singapore's apparent failure to make the most of opportunities in its own hinterland.

Their gripes are understandable but exaggerated. *Finanzplatz* Singapore may be a lot less exciting than its free-wheeling rival to the north. But with characteristic deliberation and single-mindedness it has carved for itself an important niche in handling the exploding flows of money around the region. Moreover, its reputation for boring integrity as opposed to speculative excess means it is in no danger of losing that niche, and may be well-placed to build on it – the more so if Hong Kong takes fright with the approach of the handback to China in 1997.

As far as the banking sector is concerned, the numbers speak for themselves. Singapore is currently home or host to 135 banks, all but 13 of them foreign. Most are highly profitable: according to the Monetary Authority of Singapore (MAS), total profits for foreign banks in the country remained buoyant last year after a 36 per cent rise in 1990 and 41 per cent growth, to S$1.84 bn, in 1991. Local banks' profits were also continuing to grow at a steady clip of 12-plus per cent. At a time when financial institutions in many parts of the world are struggling simply to stay in the black, Singapore must be doing something right.

The activity increasingly at the heart of international banks' operations in the city state is foreign exchange trading. Figures from the Bank for International Settlements show that Singapore is now the world's fourth biggest forex trading centre, with an average daily trading volume of US$74bn last year – still a long way behind London, New York and Tokyo but for the first time ahead of Zurich.

Signs are that this growth will continue. More and more banks are making Singapore, with its world-class infrastructure and telecommunications, the centre for their Asian currency and interest rate business, trading a widening range of financial instruments: the biggest local forex operator, Union Bank of Switzerland, has expanded into a full-scale treasury operation and others are following.

The authorities hope that the presence of so many integrated trading rooms in Singapore will act as an additional lure for multinational companies pondering whether to use the island as their Asia headquarters. They are also discreetly wooing other regional central banks. Brunei already manages its sizeable official reserves through Singapore, and the Bank of China is said to be on the point of establishing a branch there.

The particular advantage of Singapore as a forex centre, say MAS officials, is its international character. Unlike Tokyo, which is dominated by dollar-yen trading, business in Singapore is spread more evenly between dollar-yen, dollar-D-mark and other trades, and smaller regional currencies are also playing a growing role. "We have a much more diversified market with more depth and breadth than Tokyo," said one official. "Banks find it convenient to come here because you can trade a whole range of currencies."

Another increasingly important string to Singapore's trading bow is Simex, the Singapore International Monetary Exchange, which after years spent on the margins of the financial futures business now claims to be the fastest growing futures market in the world. Total turnover roughly doubled last year to 12m lots as Simex grabbed an increasing share of trading in contracts based on Tokyo's Nikkei stock index and Euroyen interest rates.

The exchange plans to build on this success with the imminent launch of a Hong Kong stock index contract, and by expanding links with growing centres such as Taipei, with a view to becoming Asia's financial futures capital.

Singapore-based banks are benefiting in part from the difficulties being experienced in many other financial centres around the world. Although the interbank Asian dollar market is scarcely growing at present, and has actually shrunk from its peak in 1990, it has become significantly more profitable. Competition from Japanese banks, in particular, has become less intense as they struggle to comply with BIS capital ratios; as a result, interest margins have improved.

Similarly healthy profits are being recorded in the domestic credit market: domestic loans and advances rose by 8 per cent in 1992 as banks cashed in on the local construction boomlet and the general pickup in economic growth towards the end of the year. Singapore-based banks are grabbing an increasing slice of lucrative regional loan syndication business, too, and are major issuers of Asian dollar bonds.

It is when you consider the broader picture, however, that Singapore's current limitations as a financial centre begin to become clear. Active currency and futures businesses are useful tools for a country seeking to maintain and enhance its *entrepôt* status. But they do not quite constitute a capital market with real depth and diversity; nor, given the vast resources at its disposal, do they measure up to Singapore's true potential as a financial power.

Indeed, there are a number of specific domains in which foreign bankers and brokers argue that Singapore risks being overshadowed by regional rivals in the next few years. The stock market is one. The Singapore Stock Exchange, once the leading market in South-east Asia, has long been dwarfed by its counterparts in Bangkok and Kuala Lumpur – now in competition with Singapore although some Malaysian stocks are still listed there.

Buying shares in an economy growing at 6 per cent or more a year should be an enticing prospect, and did entice seven foreign brokers to take seats on the exchange two years ago. But the buying opportunities are sparse. With much of the economy under the control of the government or of multinational investors, only a narrow range of Singaporean companies is listed.

In all but a tiny number of stocks, trading is thin and illiquid, overall volume is not rising, and price/earnings ratios compare unfavourably with those on offer elsewhere in the region – albeit in markets where the risks are much higher. Brokers complain of onerous tax arrangements, and of cumbersome and intrusive market regulation. As a result, Singapore has had fewer new companies seeking listings than some of its peers, and the market has been slow to develop.

"Five years ago as a foreign investor you had a choice of Tokyo, Hong Kong and Singapore/Malaysia," said one broker. "Now there's a lot of choices. Thailand is a much bigger market. You don't have to be here if you don't want to be."

Some relief may be at hand, however, in the form of long-awaited privatisations. Later this year, the government plans to float a stake – probably 25 per cent, with a tranche offered to foreign investors – in Singapore Telecom, its highly profitable telephone monopoly. The multi-billion dollar issue, which is expected to be heavily subscribed, will immediately add volume and breadth to the market. It is also being seen as the harbinger of further partial privatisations – notably involving the port authority and other utilities. The authorities are also anxious to develop stock options and other derivatives on the exchange, which may further enliven proceedings in due course.

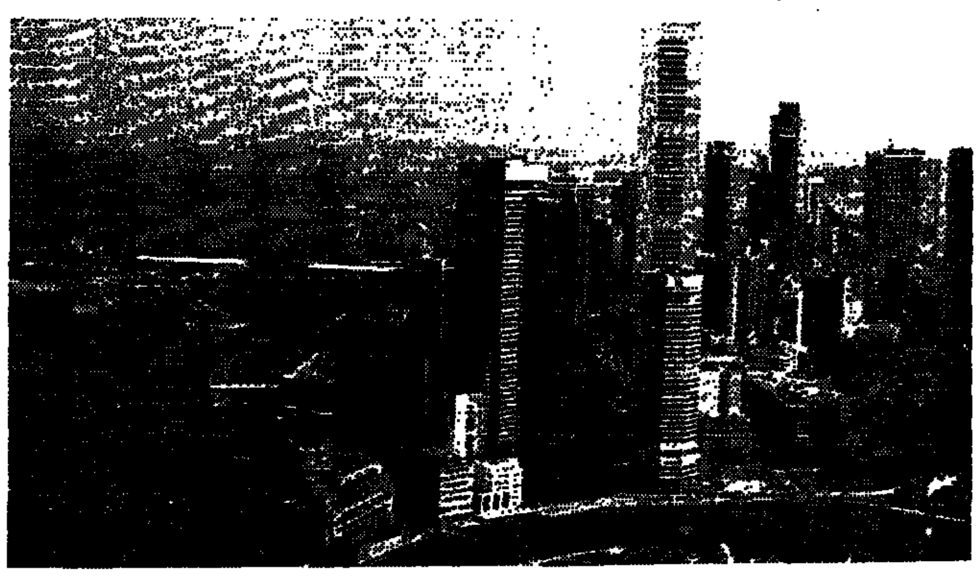
Singapore's banks, too, face a daunting regional challenge. By tradition they are staid, unadventurous institutions, preferring to focus their attention on the domestic market rather than expanding aggressively into the riskier world outside. Their rewards have been strong and reliable profits and a capital base that most international banks can only dream of (most have capital ratios well in excess of the ultra-conservative 12 per cent standard set by the MAS).

The authorities – proud of a record untainted by bank failures or scandals – have long encouraged the banks in their caution, both through their "safety first" approach to regulation and through their restrictions on the international use of the Singapore dollar. Now, however, they are exhorting the banks, like other Singaporean companies, to work harder on building a regional presence, which means building overseas branch networks and deposit bases.

It is far from clear that the bosses of the big four banks are equipped, by temperament or experience, for the task – although some local bankers and financiers are already dipping a toe in the water by establishing venture capital funds for investment in other Asian countries. Mr Lee Kuan Yew, Singapore's senior minister, has endorsed this trend, saying: "Overseas development funds are an important segment of our capital market which we must develop."

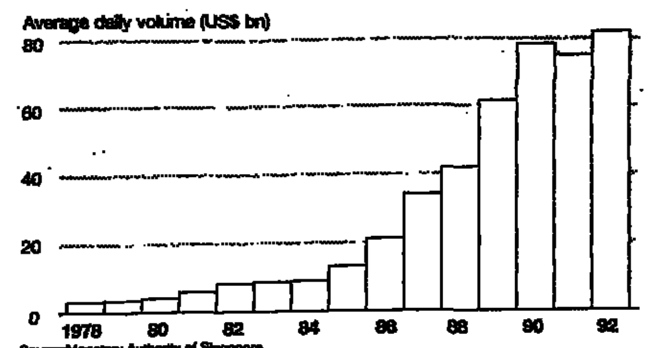
There is one other big impediment to the rapid development of Singapore as a diversified regional capital market and fund management centre: the government's restrictive approach to information, underlined last year by a crackdown on journalists and brokers after the leaking to the *Business Times* of an official estimate for growth.

The foreign financial community remains bewildered about this affair. But perhaps the authorities – mindful of the dangers of loosening control – are happy with the financial industry just as it is.



The city centre and financial district: a key role in handling the Pacific region's avalanche of money

Foreign exchange transactions



Source: Monetary Authority of Singapore

TOTAL AFTER TAX PROFITS OF LOCAL & FOREIGN BANKS IN SINGAPORE

	1989	1990	1991	1st ½ 1992
The local Big 4 ($m)	765.8	822.5	923.4	499.6
% rise on previous period	29.9	7.4	12.3	12.9
All foreign banks ($m)	955.5	1,301.5	1,838.8	na
% rise on previous period	8.9	36.2	41.1	na

The Queen Elizabeth 2 at anchor during a cruise (picture: Glyn Genin)

■ The world's largest port

Every 4 minutes a ship comes in

ANYONE sceptical about Singapore's confidence in long-range planning, and in its ability to circumvent its own environmental and demographic limitations, should visit the port, writes ANDREW GOWERS.

Occupying a pivotal site at the southern end of the Strait of Malacca, one of the world's busiest shipping channels, it is *now* larger than any other in terms of on-shore surface area and of the gross registered tonnage of ships that call there.

With volume still growing at an annual rate of 15-17 per cent, it is surpassed only by perennial rival Hong Kong in volume of container traffic, and that only in the last year as the latter's China trade has soared. Work on a new S$1.4bn terminal in an island in mid-harbour to expand capacity nearly 50 per cent by 1995 from the current level of around 9m TEUs (twenty equivalent units – the standard container measure) is well advanced.

Sounds like enough to be going on with? Not for Singapore. The Port of Singapore Authority (PSA) is already working on a plan to build almost three times as much capacity *again* in four phases by the year 2030: a new 36m-TEU container mega-terminal to be constructed mainly on reclaimed land next to the *existing port complex*. It would be foolish to question its determination to proceed on schedule, with the first few berths ready just as Hong Kong reverts to Chinese rule in 1997.

In any other part of the world, this might sound like tinpot gigantomania. After all, many of Singapore's neighbours are engaged in their own elaborate and expensive port building or upgrading schemes. Surely there cannot be room for all of them and for another three Singapores?

PSA and government officials beg to differ. Experience has shown, says Mr Lee Chee Yeng, the authority's director of operations, that Singapore stands to benefit from increasing business elsewhere in the region, that it can maintain and improve its service as a hub which other ports will feed with cargo. "It's not a zero sum game," he adds.

This is already a well-established pattern for Singapore, destination for huge numbers of feeder services from Thailand, Malaysia, Indonesia and as far afield as Sri Lanka and southern India. As international container ships have grown ever vaster – from perhaps 1,000 TEUs two decades ago to 6,000 TEUs today – the need for efficient hub ports that can swiftly transfer containers from one vessel to another has grown.

"Ships are getting very big now and very expensive," says Mr Lee. "They want to go to a few big ports and get out quickly. Big ports offer a wider choice of lines and prices are more competitive."

The volumes of traffic are staggering. A ship arrives in Singapore on average every *four minutes* – about 80,000 a year. On any given day, around 60,000 20-foot or 40-foot containers are parked on the concrete waterfront while lines of vessels wait their turn in the haze beyond. Officials reckon that the port can turn around a ship carrying 1,000 boxes in 11 to 12 hours, which they claim is the fastest turnaround time in the world.

In this the PSA – a profit-making body owned by the government but due for partial privatisation, perhaps next year – is helped by Singapore's fanatical approach to its own limitations, and its high technology.

The two things which ports *use particularly intensively* are the two things in shortest supply on the island: land and labour. The PSA has thus had to find inventive methods of processing, storing, shifting and loading containers.

It is experimenting with driver-less trucks to move boxes around and a computerised operating system which will plot precisely where they should go; it is plugged into a fully computerised document processing system which eliminates burdensome paperwork and completes customs procedures while the cargo is still at sea; it is using expert computer systems to determine the precise placing of containers within a cargo hold.

The only big snag, it seems, in this world of just-in-time planning, control and automation is the ocean itself. Mr Lee confesses he has yet to come up with a technological answer to the typhoons that regularly sweep the south-east Asian seas.

Kieran Cooke reports on refineries and plastics

The sun did not set

THE modern image of Singapore is of an economy dominated by electronics and other high tech products. But petroleum, one of Singapore's most established industries, still forms a key element in the economy.

Those who once referred to petroleum in Singapore as a sunset industry have been proved wrong. Last year more than S$400m was spent on upgrading and refurbishing existing refineries.

Singapore is the world's third biggest refining centre after Rotterdam and Houston. The oil majors and the locally and foreign held Singapore Refining Company have invested heavily in a range of sophisticated plant and equipment.

The total capacity of Singapore's refineries is now slightly over 1m barrels a day, supplying almost 40 per cent of Asia's refined product imports. Singapore has also become – along with London and New York – one of the world's main oil trading centres.

This is the third biggest refining centre after Rotterdam and Houston

The petroleum sector accounts for more than 10 per cent of Singapore's total manufacturing output and refined goods continue to be one of the largest items in the country's trade account.

Low refining prices worldwide have squeezed local profit margins in recent years. But Singapore's future as a refining centre would seem to be assured by a number of factors:

- Singapore's geographical position, at the centre of the supply chain from the Middle East to Asia's main markets in Japan and South Korea, is becoming ever more important as most economies in the Asia region rapidly expand.
- Oil demand in the Asia region is now rising by nearly four per cent a year compared with a world average of 0.5 per cent. Total petroleum demand in the Asia Pacific region is projected to rise from the present 14.5m b/d to nearly 20m b/d by the turn of the century.
- To meet this fast expanding regional demand, increasing amounts of oil will have to be shipped from the Middle East – through Singapore. Though exploration activities are being stepped up in Asia, only about 44 per cent of the region's oil needs are locally produced. By the turn of the century it is estimated that nearly 80 per cent of Asia's oil will be imported.
- Though several countries in the region have announced plans to build refineries, there is concern about the increasing costs involved. Singapore is fortunate to have an established refining industry: it is far cheaper to expand and upgrade existing plants than build new ones.
- As a consequence of upgrading programmes Singapore is now acknowledged as one of the most efficient refining centres, capable of processing a wide range of product. Particular emphasis has been put on investments in equipment to produce low sulphur fuels, the so called "green" products increasingly in demand in the region.

A considerable petrochemical industry has grown up alongside the petroleum sector. Overall nearly 300 foreign and local companies are involved in refining, petrochemicals, industrial chemicals, pharmaceuticals and advanced materials.

As in the refining sector the petrochemical industry's margins have been squeezed in recent years by generally low world prices, plus a rapid rise in regional production, mainly caused by several plants coming on stream in South Korea.

But Singapore's planners see a big growth in regional demand for petrochemical products in the years ahead and have successfully attracted some of the biggest names in the business to invest in new plants. As in all areas of investment activity, Singapore is providing key infrastructural support.

A landfill project is planned which will unite five islands off the main island of Singapore into a S$4bn petrochemical complex. Du Pont, Mobil, GE Plastics and others are investing more than S$2bn in a variety of projects.

One of Du Pont's plants will produce key ingredients for polyurethane used, among other things, for liners in the ever expanding running shoe industry. Companies such as Nike moved their manufacturing operations to Asia some years ago: of the 90m pairs of shoes Nike produces each year, less than two per cent are made outside Asia.

In future Du Pont will be able to feed Nike plants in Indonesia and elsewhere from its Singapore plant, rather than from the US.

"We've been selling our products in this region for many years," says Mr Thomas Springer, managing director of Du Pont's Singapore operations. "Now having a presence here makes sense both from a production and from a sales point of view. Over the next few years we see our market in the Asia Pacific growing at twice the rate of anywhere else."

Asia's industrial expansion is a magnet for Singapore investors, says **Kieran Cooke**

Challenge of the eastern horizons

LATE last year Mr Lee Kuan Yew, Singapore's senior minister, made a lengthy visit to China. The trip acted as the catalyst for what is being billed as one of the main policy shifts in Singapore in recent years.

Mr Lee returned to berate Singaporeans for not participating in China's economic progress. Singapore had been made too comfortable said Mr Lee. The country was in danger of missing out because its people were not willing to take risks and invest overseas.

"That's our problem ... no one wants to go abroad ... we have got to shake Singaporeans up, make them adventurous, or we will be losers."

All the considerable armoury of the government has since been mobilised to promote a new more outward looking policy. Ministers constantly talk of the need for Singapore to develop an external economy, a "second pillar" or wing.

They say Singapore must be more willing to take advantage of economic developments in the region. Singaporeans themselves must become more entrepreneurial, more willing to take risks, less afraid of failure. "Who Dares, Wins" should in future be Singapore's motto, says Mr Lee.

The basic idea behind the new policy is that Singapore, having outgrown its small domestic base, cannot continue to expand its economy without the boost of external investments.

Entrepreneurs from Hong Kong and Taiwan and conglomerates from South Korea have all made huge investments overseas which will provide added growth at home in the years to come.

Singapore, says the government, has lagged seriously behind and now has to become more outward looking. The alternative, says Mr Lee, is an unpleasant one. "We will be a failed story – one that nearly made it but stalled half way."

The Singapore Inc appoach, used so successfully at home, is being duplicated overseas, with government departments and bureaucracy coordinating with big business to mount a foreign campaign.

Dr Richard Hu, the Finance Minister, announced a number of incentives to promote outward investments in his recent budget. The main thrust of a new tax package, which involved cuts in both personal and corporate tax rates, was to encourage investments abroad.

One of the reasons for hesitancy is the insularity of an island people

Tax exemptions are to be given to various overseas ventures, while the government will provide cash incentives to operations setting up abroad.

"Individuals will be encouraged to take part in risky but highly profitable ventures, knowing that if they dare and succeed, government will not cream off a large share of their rewards," said Dr Hu.

Singapore trade offices abroad are helping investors identify opportunities. The government's Economic Development Board (EDB), which has attracted hundreds of companies to invest in Singapore, is now helping fund Singaporean businesses which want to open shop overseas.

A number of Singapore schools are planned overseas to encourage families to live abroad. The government has even set up a special committee to ponder the difficult question of how to make Singaporeans more entrepreneurial.

Some are sceptical about the new policy. They point out that the government itself, and Mr Lee in particular, have been in many ways responsible for fostering attitudes now being criticised.

Singapore international monetary exchange dealers: success will depend on a sense of adventure (picture: Glyn Genin)

They argue that by building up an over-regulated, carefully controlled society with an economy dominated by state companies, the entrepreneur has been squeezed out of people.

Others say the real aim of the new policy is to tweak the ears of Singaporeans and prevent complacency. "The government is once again using scare tactics, telling us that unless we try harder we are in serious trouble," says one critic. "It's a very familiar refrain."

In fact, Singapore already has considerable investments overseas. A recently completed Department of Statistics report said 2,290 Singapore-based companies had set up subsidiaries abroad up to the end of 1990, with direct investments totalling S$7.49bn. Malaysia and Hong Kong were the two top locations both in terms of company numbers and amounts invested.

The report concluded that Singapore's direct investments overseas are "expected to grow dramatically in the 1990s" as new markets open up and Singaporean businesspeople gain more experience of working abroad.

That prediction has already been borne out by developments in China and Vietnam. China says that Singapore investments in China in the first six months of 1992 totalled US$494m against a total of US$896m for the entire 1979-91 period.

Hardly a day passes without the announcement of another big China project, usually involving one or other of Singapore's public companies in combination with private sector partners *(see article below on Singapore Technologies)*.

In particular, Singapore is selling its expertise in infrastructural development and management – covering everything from airports and airlines to banking and fiscal systems – in the China market.

The same is the case in Vietnam. Singapore is now not only Vietnam's biggest trading partner, it is also among the leading investors in the country.

For several years Singapore-based companies have been investing in hotels and real estate, most visibly in Australia but also more recently in England and elsewhere. Several Singapore hoteliers are now investing in new projects in China and Vietnam.

Singapore is one of the leading investors in Vietnam

Singapore is sitting on a mountain of savings. Its foreign exchange reserves are officially put at $40bn though they are generally considered to be considerably higher.

The government's Singapore Investment Corp (GSIC) which acts as government fund manager, has substantial funds invested in stocks overseas. The GSIC is reported to have navigated recent ups and downs on the Tokyo and Wall Street stock markets exceptionally well. "They are the smartest guys in town," said one merchant banker.

But some government investments have not gone well. A 1991 purchase for S$821m of a 30 per cent stake in Mount Charlotte Investments, a British-based hotel chain, has not so far provided any returns. Other investments in high tech companies in California's Silicon valley have also proved less than attractive.

The government's answer to its critics is that such investments are made long term and that once risks are taken, then some degree of failure is likely.

The government now feels it is vital that such attitudes are passed on to the private sector. Entrepreneurs from Hong Kong and Taiwan are not worried about the prospect of failure. As Mr Lee notes, every Hongkonger believes that he can become a millionaire.

"There is that spirit of adventure, that willingness to take risks, to lose everything and to try again, that makes them so different and so successful. On the other hand, Singaporeans prefer secure careers and are home-bound. They are not willing to give up the security of Singapore for more gain abroad when they think the risks are too high or where it entails much discomfort."

Inculcating a more cavalier, swashbuckling approach in Singapore businesspeople has its dangers. Singapore prides itself on its above board business style. Entrepreneurs, to be successful overseas, might have to learn to be more tricky.

Mr Goh Chok Tong, Singapore's prime minister, was recently asked if he felt there was a danger that Singaporeans might import less savoury business habits from overseas.

"I think when they go outside, they have to learn how to succeed and our rules will be very clear.

"In Singapore we do things in our usual way ... Outside I think they'll have to be entrepreneurial. Inside they will have to be correct."

■ Singapore Technologies

Dynamic engine with a military rhythm

AT THE heart of Singapore's intensely competitive, market-orientated economy is a group of state companies, accounting for an estimated 25 per cent of gdp. They, along with the multinational corporations, have formed the engine of Singapore's economic growth over the years.

Singapore Technologies Industrial Corp. (STIC) is part of the Singapore Technologies conglomerate, the largest industrial and high technology group in the country with a total workforce of more than 12,000 and annual sales of $1bn.

The Singapore Technologies group started life in the mid 1960s as the industrial arm of Singapore's armed forces. One company in the group, Chartered Industries, has developed considerable expertise in a wide range of armaments and, according to a Singapore newspaper report last year, is now one of the world's top 10 military small-arms companies.

STIC accounts for 25 per cent of gdp, employs over 12,000 people and has sales of over $1bn a year

The group has diversified into many other areas. Following a company reorganisation in the late 1980s, STIC was formed to oversee the group's commercial activities in the electronics, precision engineering and industrial services sectors. Last year STIC had a turnover of S$730m.

"Start with the idea that Singapore is like a company – that's the way it works," says Mr K. S. Wong, STIC's president.

Mr Wong says STIC is not like public companies in other countries. "We have no subsidies. We have to borrow from the market. We have to take part in tender processes and compete with private sector companies."

STIC's activities are very varied. It owns the largest computer software house in southeast Asia and provides computer recovery services to a number of companies, including Singapore Airlines.

It provides communications links on Singapore's mass rapid transport system (MRT), runs car parks, builds flight simulators, supplies the Singapore army with cooked food, runs a vehicle leasing company, owns one of the country's biggest travel companies and two retail stores. It also operates Singapore's mint and mints coins for Burma and Brunei.

Now the emphasis is on expanding activities overseas. Industrial park development has been the main focus of attention. STIC helped in the formation of the first industrial park in Thailand a few years ago.

In partnership with another state company – Jurong Environmental Engineering – and the Indonesian Salim Group, STIC is building and operating a 500 hectare industrial park on the Indonesian island of Batam, about 20km south of Singapore.

Batam will eventually employ 20,000 workers, mainly in the electronics industry. Already several multinational companies have set up operations on the island.

"We provide everything for the [multinationals] from beginning to end," says Mr Wong.

"We organise work permits, build their factories, lay on water and electricity, build sewerage systems, provide their housing. All they have to do is get on with their business."

The Batam concept is now being transferred to China on a much larger scale. With the same partners STIC is building a 5,000 hectare industrial park in Fujian province. A similar project is being investigated in southern India.

Other international opportunities are being explored. STIC now has offices in Munich, New York and Tokyo. As well as industrial parks STIC is involved in specialised electronics and precision engineering projects overseas. STIC has recently entered into an agreement to supply stitcher/binder modules for Xerox photocopiers.

Mr Wong says there are many other possibilities for STIC overseas, particularly if partnerships are formed with multinationals.

"If you are a multinational in Europe or elsewhere, involved in technology and want to come to Asia then we suggest you look at us as a possible partner. STIC has an established network in the regional market. We also have all important guanxi [connections] in China. Perhaps most importantly we are willing to put our money up front. Forming such partnerships is part of our philosophy and the way to grow internationally in the future."

Kieran Cooke

Premier Goh Chok Tong must work harder to assert his authority, writes **Kieran Cooke**

A legacy and a challenge

AT THE end of last year, Mr Goh Chok Tong, Singapore's prime minister, put his political neck on the block.

Mr Goh resigned from parliament and stood in a by-election in his own constituency.

There was no doubting that Mr Goh and his governing Peoples Action Party (PAP) would win. The crucial factor was the margin of victory. In the event Mr Goh and the PAP gained 72 per cent of the vote.

Such is the nature of Singapore politics. If Mr Goh and the PAP had not achieved a resounding victory in the by-election the prime minister's future could have been in doubt.

Mr Lee Kuan Yew, Singapore's prime minister for nearly 30 years till he handed over power to Mr Goh in 1990, told voters that the future of Singapore would be in jeopardy if Mr Goh and the PAP did not win by a big margin.

"There is a danger that a significant percentage of voters may believe they can score points against the government by reducing the PM's votes and leave their neighbours to vote for the PAP," said Mr Lee.

"I ask them to pause and to consider the effect on their own future...If the by-election result is poor, you will cast a shadow on the PM's authority and put Singapore and your own future in doubt...If you deny the prime minister a strong endorsement by a much lower percentage of votes, then you would have shot yourselves in the foot."

Ex-premier Lee Kuan Yew: out of power but still on the stage

Premier Goh Chok Tong: under the founder's long shadow

The need for such overwhelming victories at the polls is partly to do with the problems Mr Goh has faced coming to office after such a dominant leader as Mr Lee. It is also a reflection of the PAP's political culture.

Mr Goh has not had an easy time asserting his political authority. Mr Lee towered over Singapore's politics and virtually every facet of the country's life for more than 30 years. Mr Lee resigned from office to make way for a second generation of leaders in Singapore, among them Mr Goh.

But Mr Lee did not leave the political stage. Far from it. He became senior minister in Mr Goh's cabinet. Mr Lee did not hesitate to criticise if he felt the running of the country was not being carried out properly.

In an effort to establish his own political mandate, Mr Goh called a general election in mid 1991. The PAP won 77 of the 81 seats in parliament and 61 per cent of the popular vote.

The result, though highly respectable by the standards of most governing parties elsewhere, was considered a serious setback by the PAP and by Mr Goh. More opposition MPs than before had been allowed into parliament. The PAP had seen its vote slip to its lowest level since the late 1960s.

Mr Goh did not feel his political legitimacy had been established. That finally came with the by-election last December.

But in the interim, various factors had strengthened Mr Goh's position. There is a widely held belief in Singapore that Mr Goh was not Mr Lee's preferred choice as prime minister. Mr Lee had carefully groomed his own son for the job.

Lee Hsien Loong, a reserve brigadier-general known as "BG" Lee, is cut very much in the same no-nonsense mould as his father. Mr Goh was seen only as an interim prime minister – in the job until BG Lee, 40, was thought ready to assume office.

BG Lee had distinguished himself as Minister for Trade and Industry and as one of Singapore's two deputy prime ministers. But last November it was announced that both BG Lee and Ong Teng Cheong, another deputy prime minister, had cancer.

BG Lee has been away from the political scene for several months. Mr Goh says that the younger Lee has responded well to treatment and it is likely he will take up his duties again soon.

Mr Goh has taken over the important post of PAP secretary general from the elder Mr Lee and put his own people in key positions, including placing a former aide as head of the powerful internal security service.

Mr Goh appears confident and denies any suggestion that he is an interim prime minister, or of any conflict with Mr Lee. "The important thing is the relationship between myself, the senior minister, BG Lee and my colleagues. We know the nature of our relationships. I know what role I'll be playing in Singapore...I was hoping, frankly speaking, that I could contemplate my retirement in the year 2000...I see myself in this job for quite some time to come, even had there been nothing wrong with D-PM Lee."

But Mr Goh and the PAP do have problems. If the PAP vote continues its downward trend in general elections it is not inconceivable that within a few years there could be up to 20 opposition MPs. There are those who see this as an inevitable development in a maturing political and economic environment.

The governing party is a highly disciplined, secretive organisation that carefully selects its members. After more than 30 years in power the PAP and government have become synonymous. The party still very much reflects Mr Lee's image.

Mr Raj Vasil, a writer on Singapore politics, says the elder Lee is the party in the eyes of Singaporeans: "The PAP does not have much of an identity independent of the (then) prime minister and the government headed by him. Its image, identity and appeal are almost entirely derived from the personality of the prime minister..."

So far, there is little sign that the PAP is willing to countenance more opposition or wishes to change its image.

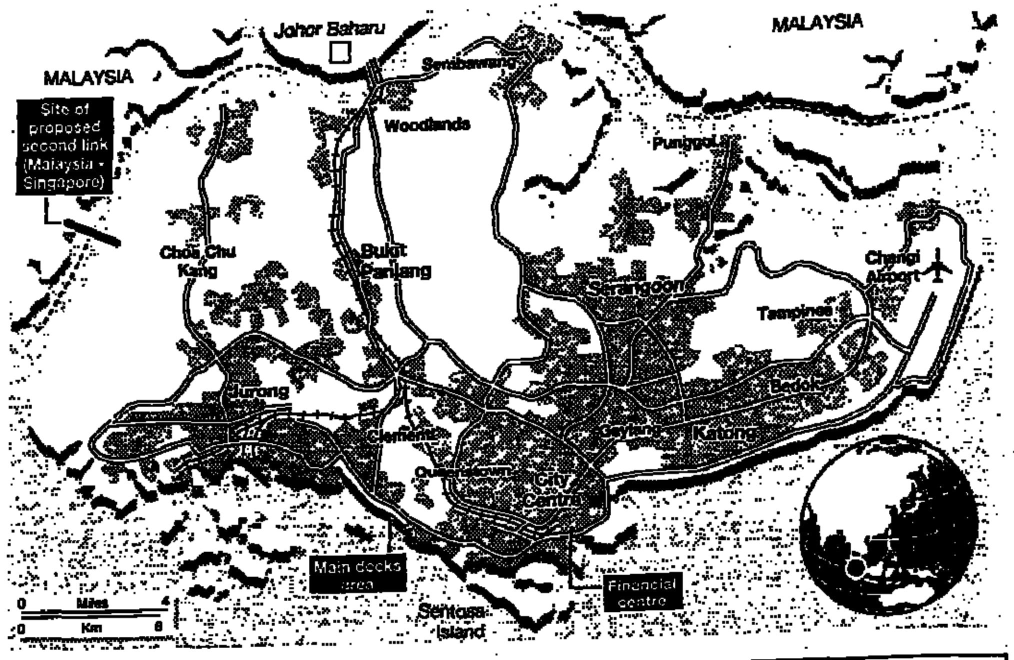
A sizeable section of the Singapore population seems to feel that its economic needs are being largely ignored by a government and party which is seen to have grown elitist, too focused on the increasingly affluent, English educated middle class.

This group feels life is becoming increasingly expensive. It feels it is missing out on the fruits of Singapore's economic success. Many of these people – Chinese dialect speakers living in housing estates – were once the bedrock of PAP support.

Opposition parties are still small and tend to lack coherent alternative policies. In the past government has used various methods to undermine the opposition. Many talented Singaporeans have been reluctant to oppose government.

But the PAP itself is also short of talent – a fact acknowledged by Mr Goh late last year when he said his cabinet was ageing and needed to be revitalised with new political talent.

"My job is to make sure that the drop in the PAP vote doesn't come about. So when there is a one per cent drop, I get worried...if the PAP can succeed in recruiting very able people, honest, dedicated, committed, to join the party, we think the PAP is going to be in government for a long, long time."



KEY FACTS

Area	639.1 sq km.
Population	3.1m
Head of State	President Wee Kim Wee
Currency	Singapore dollar (S$)
Average Exchange Rate	1991 $1=1.7276 S$
	1992 $1=1.6290 S$

ECONOMY	1991	1992
Total GDP ($ bn)	40.2	46.0
Real GDP growth (%)[1]	6.7	5.8
Components of GDP (%)		
Private Consumption	43.7	43.1
Total investment	38.2	40.8
Government Consumption	10.4	9.8
Exports (net)	8.1	6.2
Inflation rate (%)[2]	3.4	2.3
Employment growth (%)[1]	+2.6	+3.4
Reserves minus gold ($bn)[3]	34.1	39.5
M2 growth (%)[1]	+14.3	+11.7
Call money rate (%)[3]	2.8	0.8
3 month interbank rate (%)[3]	3.0	2.2
Strait Times index (%)[4]	+29.1	+2.3
Current account ($ bn)	3.3	2.9
Exports ($ bn)	56.8	60.9
Imports ($ bn)	61.6	66.5
Trade balance ($ bn)	-4.1	-4.9
Main trading partners (%)[5]	Exports	Imports
US	19.8	15.8
Malaysia	14.9	15.3
Japan	8.7	21.3
Hong Kong	7.2	3.0
Thailand	6.3	3.2
UK	3.0	2.9
EC	14.0	12.0

Notes (1) Year on year percentage change
(2) Year on year percentage change in consumer prices
(3) At year end
(4) Year on year percentage change at 31st Dec.
(5) Percentage share by value in 1991
Source: IMF, Datastream, WEFA, Economist Intelligence Unit

■ **Profile:** role of the SIF

Widening the island's mental horizons

ONE thing Singapore cannot be faulted for is planning. Long before the government announced its policy to develop a fully fledged external economy and encourage Singaporeans to invest overseas, the ground was being prepared.

The Singapore International Foundation (SIF) was founded in 1991 with the specific goal of encouraging Singaporeans to think internationally.

Dr Chan Heng Chee, former university lecturer and most recently Singapore ambassador to the UN, is SIF's director. Though government played a role in bringing the SIF into being, Dr Chan stresses that the SIF is an independent, non political organisation.

"We aim to help Singapore in its efforts to go global. This should benefit others and benefit Singapore as well.

"We have organised voluntary service schemes and now have Singaporean professionals helping in various countries. At the same time we try to stay in contact with Singaporeans overseas, to tell them about developments here."

Dr Chan feels much has changed in Singapore – not just the physical landscape.

"Singapore has opened up. If you read the newspapers today compared with a few years ago they are very different. There is more willingness to criticise.

"The arts and theatre scene has changed. It might have a certain innocence and perhaps it lacks sophistication. But I tell people there are tremendous opportunities in Singapore, especially for the young."

The SIF estimates that up to 100,000 Singaporeans are now living abroad, a sizeable proportion of Singapore's 2.8m population. Dr Chan says that there is concern about a brain drain and one of the aims of the SIF is to keep in touch with Singapore's overseas talent. She denies any suggestion that her organisation is out to keep tabs on its citizens.

"I don't have lists of names or dossiers – there is no Big Brother motive." Dr Chan feels Singapore has a lot to offer the world. "Singapore is a good brand name. We work hard, we are efficient, we get jobs."

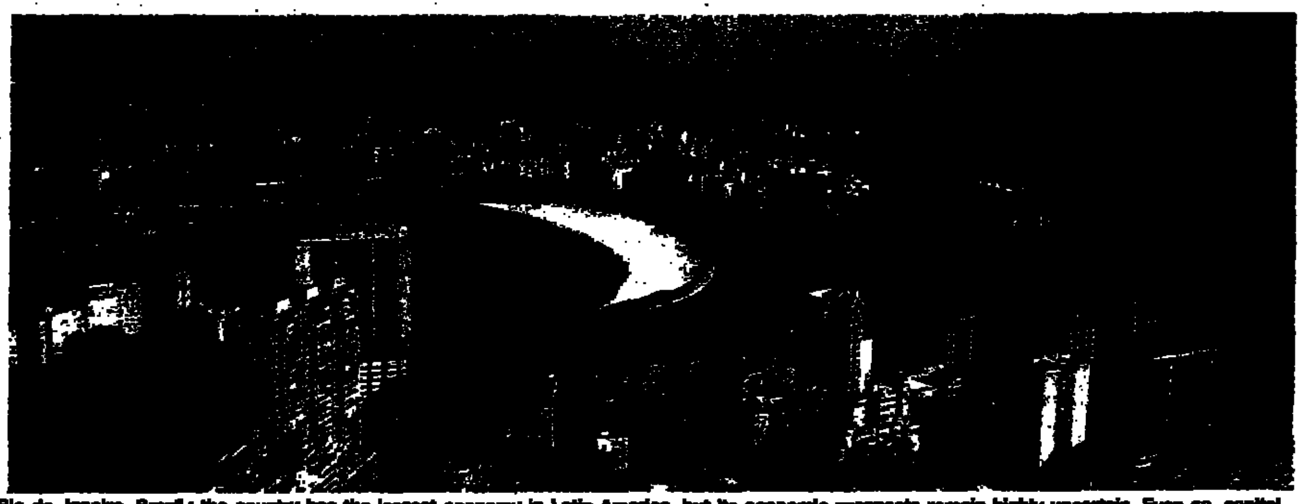
The SIF seeks to help Singaporeans to internationalise, while maintaining what's considered to be a distinct Singaporean identity.

According to Dr Chan that identity is made up of various elements. Insecurity is one of them. "Insecurity is part of the psyche of Singapore. Our history has taught us that we are vulnerable. We are a paradox. We always have to balance the needs of creativity with the requirements of building a state, a nation."

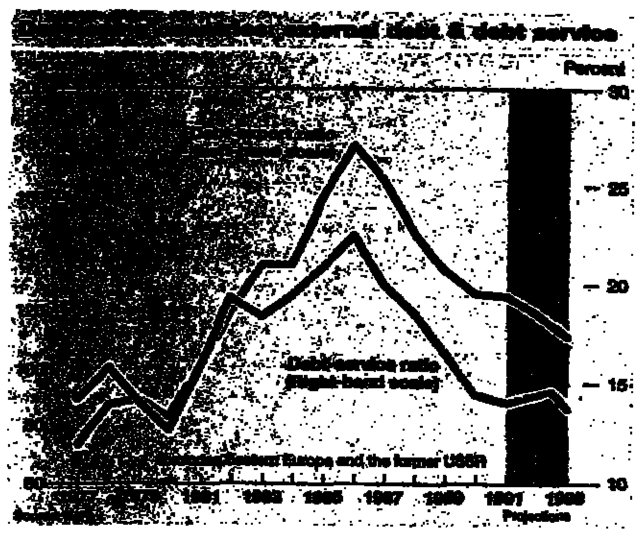
But as more and more Singaporeans seek opportunities overseas, they will have to loosen up. "That will be a challenge to our identity."

Kieran Cooke

LATIN AMERICAN FINANCE



Rio de Janeiro, Brazil: the country has the largest economy in Latin America, but its economic prospects remain highly uncertain. Even so, capital inflows rose remarkably last year to $10.1bn, compared to $1.2bn for the preceding year, according to preliminary estimates. See page two.



Top of investors' agenda worldwide

One in every three new investment dollars now allocated worldwide in equity is reported to be going into emerging markets. Latin America is winning an important share, reports Stephen Fidler

IT could be one of the most important financial developments of the 1990s, setting investment trends into the 21st century – or perhaps just another financial fad. Megatrend or a flash in the pan, Latin America has in the last three years pushed itself to the top of the agendas of investors – individual, financial and corporate – worldwide.

The reasons are both internal and external to the region. Internally, economic policies offering prospects for stability and a return to growth are being pursued by governments no longer hostile to private capital. The cloud of the 1980s foreign debt crisis has lifted in some countries, thanks to low US interest rates and negotiated debt relief. Externally, low returns in established markets have forced investors to look further afield to improve performance.

Michael Howell, of Baring Securities global strategy unit in London, reckons: "One in every three new investment dollars now allocated worldwide in equity is going into emerging markets."

Of this, Latin America is getting an important share.

Mr Howell often describes to investors an ideal investment portfolio for the turn of the century. The portfolio is only 54 per cent invested in the staid markets of the industrialised world: the rest is in the emerging markets of developing countries. One-fifth is concentrated in Latin America. Yet this is no portfolio of the future, but a typical British investment spread in 1913. Mr Howell argues that, after years in which emerging markets were ignored, history is turning a full circle.

Richard Watt was recently appointed head of Latin American investments for Gartmore Investment Management, which manages around £12.8bn ($19bn) of funds. Gartmore has recommended to clients that they put up to 1½-2 per cent of their portfolios in newer emerging markets. Around 70 per cent of that will go to Latin America. Gartmore has already placed £40m of investment in the region since the start of the year.

Pension funds in Britain account for more than £300bn of investments. Philippa Armitage of Fleming Investment Management believes UK institutions will approach Latin America as they did Asia's emerging markets some years ago, initially committing perhaps 1-2 per cent before building up to higher levels.

UK institutions are lagging Dutch and, in particular, US investors. In the US alone, institutions hold some $6,000bn. There, some consultants are recommending significantly larger exposure to Latin America. They see economies with good growth prospects, attractive share valuations and the scope to increase return by diversifying portfolios and thereby reducing risk.

EVEN if a fraction of this money makes its way into Latin America on a sustainable basis, it can make a huge difference. Yet investors are still cautious after the 1980s debt crisis, unsure about the durability of the improved economic performance. There are questions about the ability of markets to absorb a large influx of funds. Investors rarely complain about inadequate settlement procedures – except in Venezuela – but the markets in most shares are thin and prone to overshoot.

This volatility of Latin stock markets was forcefully underlined last year. Stocks hit new highs in the first half of the year and then collapsed, leaving investors with meagre returns and a large number of proposed international equity offerings high and dry.

The market for Latin American bonds also had its share of troubles: the latter part of the year saw a glut of over-priced bond issues which sold poorly. Some underwriters only cleared their books of these issues with this year's fortuitous drop in US interest rates: they may as a result be more cautious in the future.

These problems, providing investors with their first real setbacks since private capital began flowing back into Latin America at the start of the 1990s, contributed to a slowing of portfolio investment into the region last year. That interest among portfolio investors in the region continues to grow after such difficulties suggests the return of foreign capital to the region may be more than a transitory phenomenon.

Despite this, an important proportion of the inflows – too high for comfort – has been of volatile short-term capital. This has been attracted by high real interest rates in the region which are a consequence of tight monetary policies aimed at curbing inflation.

Dependence on short-term capital to cover current account deficits – such funding is estimated to make up between a third and a half of Mexico's capital inflows – carries risks. It can flee as quickly as it arrived, with harsh consequences on interest rates, growth and economic policy.

Over-dependence on volatile foreign capital has underlined the need for reform to boost domestic savings, following the example of Chile where private pension funds have stimulated growth of local capital markets. Throughout the region, foreign banks are showing a growing interest in local capital markets.

There has also been a significant influx of long-term capital, foreign direct investment (FDI) with the potential to expand the region's productive capacity. As portfolio flows slowed last year, foreign direct investment is estimated to have continued growing. No longer viewing such investment with the suspicion of the past, the region's governments are doing what they can to attract it.

Some FDI has been spurred by privatisation, an unrepeatable phenomenon, but much has also been driven by growth prospects and expected progress towards regional economic integration, which translates into bigger domestic markets.

CAPITAL inflows have opened in some countries the prospect of a future path to sustainable growth. They do not guarantee it, however. Latin America is in the early stages of an economic transformation that involves the destruction of much old industrial capacity. Industries once protected by high tariffs and import quotas are no longer viable.

This restructuring – together with the slimming down of government – implies unemployment for important, and often powerful, sectors of society. Yet the economic benefits of new investment, if indeed it continues, could take years to become evident. Since elected governments now hold sway in most of the region – and in the next two years almost every country faces a presidential election – there is a risk of a reaction in economic policy.

Even if economic success is enjoyed by some countries, others may miss out. The economic prospects for the largest economy – Brazil – are highly uncertain. Governments face social problems – big income inequalities and poverty that worsened throughout the 1980s.

In two big economies, Argentina and Mexico, inflation has been tackled in part with policies that have encouraged an appreciation of the real exchange rate. These countries and others have experienced widening current account deficits, raising questions about whether they can be financed on a sustainable basis. Absent Brazil's big trade surplus, the region's widening current account deficit underlines that whatever investment so far has taken place, it has yet to create an important base for exports.

The reform of the region's economies has given Latin America a heightened dependence on foreign capital, external economic conditions and the world trading system. The auguries are strong for continued flows of new finance to Latin America. Yet most of the region's governments have placed their bets on a system of free markets and free trade, a system now being questioned in the US, the region's most important trading partner, and elsewhere in the industrialised world.

ON OTHER PAGES

The return of capital to Latin America

■ On pages 2 to 5, Stephen Fidler, Latin America Editor, examines in detail the resurgence of capital flows to Latin America and whether they are sustainable. The inflows have helped to restore growth but have not been unalloyed good news in the management of economic policy. What are the prospects for continued flows of short-term capital, portfolio investment and foreign direct investment and is there any danger, with the region's current account deficits on the rise, of any repeat of the 1980s debt crisis?

■ Tracy Corrigan looks at secondary markets while Richard Lapper reports on the way that pension funds can promote local capital markets. See page 6

The return of capital to Latin America

Report by
Stephen Fidler

AT THE beginning this year, the Financial Times celebrated its 100 years of publication on pink paper and carried a reproduction of its first pink issue.

News on Latin America was prominent. One front page article declared that JS Morgan and Co and Baring Brothers declined an invitation "to send delegates to Buenos Aires to discuss the debt question". JS Morgan saw "nothing to negotiate about in regard to loans."

Mexico's debt had been renegotiated five years earlier. On the last day of 1892, Mexican 6 per cent bonds issued in the 1888 restructuring by the Porfirio Diaz government closed up a quarter point on the London stock exchange, at 78 per cent of face value.

One does not have to look far to be reminded of the boom-and-bust nature of the international financial markets' 200-year-old affair with Latin America. The question now is whether the recent unusual upsurge in private capital flows is sustainable, or whether once again the whole process is going to end disastrously.

The flows have been spurred by developments both within and outside the region. Latin American governments have set the scene by introducing economic policies which have met the approval of investors. To greater or lesser degrees, governments have opened economies to outside competition, curbed budget deficits, privatised state 'ndustry and generally increased the role of the market. High real interest rates, designed to bear down on inflation, have more than compensated investors for the perceived risks of investment.

The foreign debt problems which plagued governments during the 1980s have been temporarily ameliorated by sharply lower US interest rates. Mexico and others have benefited from longer-term, albeit modest, debt relief through the plan launched in 1989 by former US Treasury Secretary Nicholas Brady.

Outside the region, low US interest rates and recession in the US and other industrialised countries have lowered investor returns in more traditional markets, and led investors to look at higher returns offered in Latin America. These investors include Latin Americans who, over the previous 20 years, had moved capital away from the region.

According to preliminary estimates from the Economic Commission for Latin America and the Caribbean (Cepal), the region's net inflows of all types of capital amounted to \$57bn last year, 50 per cent up on the preceding year and nearly three times the level of 1990. The greater part of this inflow was private capital.

Mexico's inflows were up to \$23.3bn from \$21.5bn; while Argentina's rose to \$9.3bn from \$5.3bn. The most remarkable rise was Brazil's, to \$10.1bn from \$1.2bn.

After nine years in which Latin America transferred resources to the rest of the world, net transfers – that is new finance minus capital repayments and interest and dividend remitted abroad – became positive to the tune of \$5.5bn in 1991 and trebled in 1992 to \$17.1bn.

The inflows to date have been critical in the restoration of economic growth: economic expansion exceeded population growth in 1991 and 1992. They have helped to lift the financing constraints that have plagued the region's economies since the beginning of the debt crisis.

Too much of a good thing?

HOWEVER good for growth, the extent of the inflows has complicated the task of governments across Latin America in managing economic policy.

The flows have had important repercussions on exchange rates, the money supply, inflation, interest rates and wages. They have often pushed economies economy in the opposite direction from that intended by governments. They have made it more difficult to increase exports, have increased dependence on international capital markets and on developments in the industrialised world, and have played a role in bidding up prices of existing assets, the general benefits of which have not always been clear.

Economic outlook: current account balances and total external debt (\$bn)

Country	1992 balance	Proj.1993 balance	1992 debt	Proj.1993 debt
Argentine	–8.0	–8.0	62	56
Brazil	5.2	3.7	127	127
Chile	–0.5	–1.2	19	20
Colombia	0.9	0.4	16	16
Mexico	-22.7	-25.7	105	112
Peru	–1.8	–1.8	22	23
Venezuela	–3.7	–2.6	34	35
LATIN AMERICA	–30.5	–35.2	384	390

Source: J.P.Morgan, Emerging Markets Economic Outlook, 1993

Most governments have handled the inflation risk caused by the capital inflows with some skill. The proof of this is in the decline, except in Brazil, of inflation rates across the region as governments have responded with tight monetary and fiscal policies.

However, this has, in some countries, been at the cost of an exchange rate pitched too high to ensure that domestic industry remained competitive in international markets.

The appreciation of real exchange rates caused by the inflows to some countries has – by making exports more expensive and imports cheaper – added to the difficulties of expanding exports. It has placed additional pressures on domestic industries also facing the tough adjustment to lower tariffs and the lifting of import quotas. As Chile's finance minister, Alejandro Foxley, said last year: "We already know from the previous crisis that a sudden inflow of capital can be extremely destructive: it forces an appreciation of the currency that can be of such a magnitude that it will severely hurt the domestic productive structure."

The exchange rate has been a real bind for many governments. If they allow their currencies to appreciate, domestic industry is damaged, imports increase and the current account deficit worsens. If they attempt to maintain exchange rates by intervention in the currency market, the inflows are absorbed through increases in foreign exchange reserves.

However, this latter course – because the government issues domestic currency to buy foreign currency – expands money supply and increases inflationary pressures.

The government can take action to offset the increase in money supply by selling government debt. But if it sells debt, this pushes interest rates higher – thereby deterring physical investment (which is actually what it is trying to encourage).

It also spurs even more short-term inflows of capital. In the mean time, central banks lose money as they buy up foreign exchange on which they earn single-digit interest rates, and pay double digit interest rates or higher to buyers of the debt.

The problems caused by selling debt to "sterilise" capital inflows were particularly acute in Brazil last year. There was a rapid expansion of internal debt and a sharp rise in reserves. But because inflation and real interest rates were so high, the interest rates paid on the extra debt added critically to the overall fiscal deficit, which fed into the country's inflation problem.

COLOMBIA also had great difficulty: foreign exchange reserves rose in 1991 by \$1.9bn, equal to its entire monetary base. High real interest rates, which resulted from attempts to sterilise these inflows, meant that, according to the InterAmerican Development Bank, in Colombia and some other countries there had been "no real benefit of the inflows of capital to the national economies in terms of increased investment or faster growth."

By common consent, Mexico has probably struck the best balance. Although it had the largest inflow, its fiscal surplus allowed internal debt to be paid back and interest rates to be lowered.

Without the fiscal surplus – which is difficult psychologically to justify in a developing country – interest rates in Mexico would have had to be higher and therefore economic growth slower.

The Mexican government has also used foreign currency reserves to buy back foreign debt, although this has the disadvantage again that it uses high-cost capital to buy back low-cost capital.


Chilean finance minister, Alejandro Foxley warns: "We already know from the previous crisis that a sudden inflow of capital can be extremely destructive"

Significantly, a further possible policy reaction has hardly been discussed in the region: direct obstacles to capital flows. It is clear that most governments recognise that this would send a strong signal suggesting a reversal of the recent financial liberalisation.

Furthermore, there must be substantial doubts about the efficacy of capital controls or foreign exchange controls either to keep funds in a country or to stop them from entering. Such controls would probably have little effect at a substantial cost.

There is no doubt that the inflows would probably have been more useful if they had been somewhat slower. As the InterAmerican Development Bank said, late last year: "It would have been preferable if they had entered the countries more gradually and on a sustainable basis."

Indeed, forecasts suggest that inflows to the region will slow down in the current year. This will happen for a variety of reasons, but an important contributory factor will be the impact on the figures of Brazil. That country's continuing economic difficulties will feed continuing fears about another asset confiscation through some kind of shock plan, while the government's growth orientation may bring about a decline in real interest rates.

A rerun of the debt crisis?

THE sudden rush of capital into Latin America has inevitably raised questions about what happens if it stops. As the combined current account deficit of the region widens sharply, as it did last year, the parallels are already being drawn with the years that led up to the debt crisis of the 1980s.

There are significant differences, however, between what is happening now and the experience of the late 1970s and early 1980s which should reduce the risks:

- Then, budget deficits and inflation were on the rise, while now inflation is declining and budgets are balanced.
- Then, the borrowing was mostly done by the public sector and this time it has been private. This does not comfort everybody: the worrying exception last time was Chile, where the government was eventually forced to assume private foreign debt, mostly owed by Chilean banks. "Private debt in Latin America has a way of becoming public debt," notes one US economist.
- Then, the inflows were largely bank-financed and with interest rates floating along with US rates. This time the mix of inflows is significantly more varied – including equity, more borrowing at fixed interest rates, and an important component of direct investment. Equity investment does not create debt and dividends, in contrast to interest payments, are only paid in the event of investment success. Although in some countries debt servicing would still constitute a problem if US interest rates rose sharply, the new capital flows do not increase the vulnerability of the region to US interest increases in the way that the debt inflows of the 1970s did.
- Then, the capital inflows represented a much larger percentage of regional domestic product than in the 1990s. In 1978-82, capital inflows into the region as a whole represented 7 per cent of domestic product, in 1990-91, about 4 per cent and last year 4.8 per cent. However, the averages deceive: Mexico's inflows represented last year over 8.4 per cent of gross domestic product.

There is another crucial difference. Unlike in 1978-82, official reserves have been rising as authorities have actively intervened in the foreign exchange market. Many governments thus have a substantial cushion of foreign exchange reserves in case of troubles ahead.

The current account deficit has been very much the counterpart to the capital inflows. Figures from the Economic Commission for Latin America and the Caribbean show a doubling of the region's current account deficit, excluding Brazil's large surplus, to \$39bn last year from \$18bn in 1991. This of itself is not necessarily bad: it in part reflects the recovery from the 1980s recession which released demand for both investment and consumer goods from abroad.

Nonetheless, Mexico's current account deficit of around 6 per cent of its GDP in 1992 accounted for half of the region's combined current account deficit, excluding Brazil. Many forecasts suggest the deficit will now rise to \$27bn this year, 8 per cent of GDP.

EVEN though this is mainly the result of private sector activity, this does not mean it is of no concern to the government – "in practice, large private sector current account deficits can have important and, frequently, adverse implications for the public sector," says Mr Paul Luke of the British investment bank, Morgan Grenfell. According to the Organisation for Economic Co-operation and Development, which published a generally optimistic report on Mexico last year: "It could once again become difficult to finance a current account deficit, which as a percentage of GDP is close to GDP growth." Continued current account deficits at current levels implied rises in the ratio of foreign liabilities to GDP "in excess of anything observed historically."

More accurately, the question is not whether the deficit can be financed – because after the fact a country's current account deficit will always equal inflows of capital adjusted for changes in reserves. The question is at what level of interest rates and therefore of economic growth will the equilibrium between capital inflows and current account deficit be reached.

The big current account deficits highlight another issue: exports are not rising quick enough for some people's liking. "The model is one of export-led growth; the problem is that in most countries exports have yet to take off," says Victor Bulmer-Thomas, head of the Institute for Latin American Studies at the University of London.

This underlines that Latin America's return to growth has so far mostly arisen directly from the lifting of the constraint on access to foreign exchange. This first stage of growth arises because capital inflows allow an economy to spend more than it produces. The importance of this should not be minimised – it has a valuable role in boosting confidence and kick-starting the economy. "The value of this initial positive effect should not be underestimated, especially in a region emerging from a "lost decade" in terms of growth and development," says Stephany Griffith-Jones of Sussex University's Institute of Development Studies in a recent book. It is however a temporary phenomenon.

The second – more long-standing – beneficial effect on growth of capital inflows depends on the extent to which they finance growth in productive capacity. In the 1970s debt splurge, we now know that capital inflows generated insufficient new productive capacity to provide the future income that was necessary to finance the loans. Now the crucial second stage of growth depends on to what extent the inflows are directed to investment and how productive it is.

If enough efficient investment takes place and output rises sufficiently, it is more likely that future debt servicing will be financeable without problems. In Mexico, some capital inflows are financing new factories and machinery for foreign and domestic investors. But the Mexican statistics – with their broad definition of intermediate goods – do not really permit a judgement of the extent to which the flows are financing consumption or investment. Moreover, some inflows which might be unequivocally defined as investment are going into construction and real estate projects, which may only obliquely, if at all, help to provide foreign currency income streams to service the financings. Mexico, for example, has been borrowing in dollars to finance toll-road construction.

A scale of desirability for capital flows

CAPITAL is flowing back into Latin America, but not all capital flows are created equal.

"Some types of flows seem more desirable than others," says Stephany Griffiths-Jones, of Sussex University's Institute of Development Studies.

Bottom of this scale of desirability, from the recipient economy point of view, is speculative short-term capital. Of this, perhaps the most risky inflows are those resulting from foreign currency borrowing by domestic companies to lodge money in money markets at home. At the top of the scale, it is generally agreed, is foreign direct investment aimed at enlarging productive capacity.

For comfort's sake, too high a proportion of the inflows into Latin America over the past few years is "hot money" – money attempting to capture profit from interest differentials or foreign exchange market inefficiencies, and which is likely to be withdrawn as soon as the perceived risk associated with the investment increases.

JP Morgan, the New York bank, estimated late last year that Treasury bills, local currency deposits and other short-term funding account for between one-third and one-half of Mexico's capital inflows.

Arbitrage borrowings by Latin American companies in dollars may also be storing up problems for the future: the British investment bank Morgan Grenfell estimates that 60 per cent of Argentine corporate debt is in US dollars; much of that is clearly invested in the Argentine money markets.

The reason why the dependence on short-term capital is such a critical issue for Mexico and Argentina hangs on their exchange rate policies. Both are using exchange rate policy as a tool in the battle against inflation, leading to an appreciation in the real value of their currencies against the dollar.

Argentina fixed its currency to the dollar in April 1991. Mexico, which until October was pursuing a daily slide of the peso amounting to a 2.3 per cent nominal devaluation a year, is now allowing the currency to float within a target band that would permit a maximum depreciation of twice that.

The problem is that so much of the short-term inflows depend on an elusive commodity: confidence. If the view grows that a big devaluation is in the offing, then short-term capital will not hang around to wait and see. The impact on international financial market confidence could be such that no politically sustainable level of interest rates will be enough to tempt it back.

This possibility can be cushioned by the now significant reserves, and in the early part of this year short-term capital inflows appeared to be holding up relatively well – albeit, in Mexico, at the cost of higher interest rates. Nonetheless the risk remains of over-dependence on this type of capital.

Indeed, a slowing down of inflows may occur because of events completely external to the region. Some short-term inflows have certainly been encouraged by recent unusually low US interest rates and the low returns on investments generally in the US and other industrialised countries.

IN Mexico's case, much depends on the passage of the North American Free Trade Agreement through the legislatures of Mexico, Canada and the US. The biggest question here is the attitude of the US Congress to the accord – and signs, one way or the other, about the attitudes of US legislators – are already having a significant impact on capital flows. Sensitive to these concerns are domestic residents bringing home flight capital, salted away in the 1970s and 1980s. This group, until a couple of years ago, accounted for, according to some estimates, half of the region's private capital inflows.

The InterAmerican Development Bank has estimated that more recently almost a quarter of the funds flowing into Mexico have been controlled by Mexican investors.

The trigger for the return of much of this money was the simple lifting of capital controls across the region, which gave residents comfort that they could take their money out of the country. Some flight capital is also obviously linked with drugs trafficking, although this is more important in some countries than in others. Drugs money responds to the concerns of all investors – for example, low returns in established markets – as well as to special concerns such as the clampdown on money-laundering in the US and other banking centres following the BCCI scandal.

Illegal drugs seized for burning by Colombian troops

All told, however, the influence of returning flight capital on overall flows has probably fallen in the past two years as more foreigners have begun to invest. Latin Americans are not, of course, simply parking money on deposit in banks or short-term government paper. They have also repatriated capital as portfolio investors in the region's stock markets and as important buyers of Eurobonds from Latin American issuers.

Portfolio flows

One step up the ladder

PORTFOLIO flows investment in stocks and bonds – are widely considered to be one step up the ladder of desirability.

Much of this investment goes into the stock market and into bidding up the price of existing assets, but there is an element of new investment, to the extent that these higher market levels allow for new issues of equity and debt.

All developing countries have seen a dramatic increase in portfolio investment flows, which trebled to $21bn in 1991 over the level of 1989, and were projected at around $27bn for 1992. Total volume of portfolio flows now exceeds net flows of official finance to developing countries, reflecting what is clearly the growing dominance of the private sector in international finance. According to the World Bank, portfolio flows to Latin America multiplied fourfold from 1990 to 1992.

Portfolio investors are not a homogeneous bunch – and neither can all portfolio investment be viewed as equal. Apart from rich Latin Americans, the universe of portfolio investors also includes aggressive speculative investors such as the so-called hedge funds, which helped to cause havoc in the European Monetary System last year, and conservative investment institutions dipping a toe into more exotic markets in an attempt to improve returns.

Some of this investment is therefore quite transitory; some more permanent. The fact that sometimes relatively modest outflows from a stock market can precipitate steep price declines may limit the mobility of this capital. This is because some investors are unwilling to take large losses and prefer to hold on to await a future price rally.

Some traders in the bond and equity markets argue that, over time, the profile of the portfolio investors in Latin America has changed.

The first wave of buying was by investors who believed the price of assets in the region had simply fallen too far: this was speculative capital centred on trading desks, and to some extent hedge funds and wealthy individuals. It was encouraged by the settlement in Mexico of a debt reduction agreement which, along with low US interest rates, has taken the debt question off the list of prime investor concerns.

Since then, into the bond market have moved buyers attracted by high absolute yields – preferably in double digits – seeking an improvement in credit. This group are important buyers of Eurobonds. Many do not look very carefully at bond prospectuses – and they include individuals and mutual funds focusing on emerging markets.

This group of investors – looking only at absolute yields and not worried about the more subtle aspects of credit quality – had a role in temporarily and unsustainably compressing yield spreads towards the middle of last year, between borrowers of very different calibre.

THE other culprit was over-aggressive bidding by bond underwriters for bond mandates: this left huge amounts of Latin American paper on the books of underwriters late last year, and effectively closed the new-issue market for several months. The backlog was only cleared this year by the rally in US interest rates, which lifted the prices of all dollar-denominated bonds. With US interest rates at current levels, it is unlikely that underwriters will be able to rely on interest rate falls to bail them out a second time.

Nonetheless, some bond market traders say Latin bonds are moving into another stage of evolution: sophisticated but often conservative institutional investors are said to be moving in. If indeed this is happening – and it should be facilitated by changes in the last couple of years in US securities regulation, which have helped to reduce some of the more onerous disclosure and prospectus requirements for issuers selling securities to institutional investors – then the market in Latin American bonds will be moving towards a more important maturity.

These institutions are careful asset allocators, which use modern portfolio theory, buying bonds and equities essentially to diversify risk. They are interested in good credit quality and liquidity, and focus on the spreads or margins over US Treasury bill rates. They will seek diversification benefits: examining, for example, correlations between, say, US and Mexican government bonds.

The justification for portfolio diversification by investment institutions is stronger in the case of equities than it is for bonds. Dollar bonds, issued by whomever, tend to track the US bonds market; while, for non-dollar bonds, the perceived exchange rate risk against the dollar is to some extent built into the yield differentials between that market and the dollar bond market.

For equity investors, this is not the case, and there has been a gradually expanding interest in the region's stock markets from institutions. For the most part, Latin American stock markets are followed by the emerging-markets group within investment institutions, which controls a small but generally growing percentage of the overall portfolio.

In the UK, there has perhaps been a longer tradition of investment than in the US in what we now call emerging markets. But the traditional emerging markets for UK investors have been in the countries of the Commonwealth, and only recently has interest arisen in Latin America. Far more important for Latin America is the attitude of US institutions, some of which already treat certain Mexican stocks as part of their North American, rather than their emerging markets, portfolio.

The potential supply of capital flows from this source to the region is immense, even if only a tiny percentage of the institutions' portfolios are devoted to the region. In the US alone, institutional investors hold more than $6,000bn of investable funds. Indeed, if these investors decide to follow their portfolio theory, the optimal level of Latin American investment in a portfolio is considerably above their actual levels, leaving much scope for growth.

There are many ways in which countries can improve the friendliness of their markets to such investors: improving and enforcing regulation, improving the quality of corporate disclosure, improving market liquidity and the like.

Governments can issue bonds in the international markets across the maturity spectrum to provide benchmarks for other issuers from that country, a tactic followed by Mexico.

They can also act to reduce the likelihood of disorderly borrowing abroad – of which

Turn to next page

Portfolio flows

Continued from previous page: there were several examples in 1992. Although it may go against the grain of liberalisation of financial markets, some bankers and academics believe governments should impose a queueing system on fund raisings in the international bond and equity markets, such as that operated until recently by the Bank of England.

This is because a mispriced or badly-timed issue by one fundraiser – there were several examples of these last year – can all too easily affect market psychology and prevent others from having access to the markets. It is also argued that some kind of quality control is worth considering on would-be issuers. This is important in the international bond market, where no Latin bond issue has defaulted in recent years – a record which, sooner or later, probably will fall, with potentially disruptive affects for other borrowers.

In the shorter term, there is concern about the relatively poor performance and volatility of both Latin bond and stock markets in 1992. Salomon Brothers' index of Brady bonds showed a total return of 4.6 per cent for 1992. Stock market investors also had a much more difficult year in 1992 then they did in 1991. Double-digit gains were observed only in Peru, Mexico and Colombia, and in both Mexican and Peruvian markets there was extraordinary volatility. This was after a year in which there were gains above 100 per cent in Argentina, Brazil, Colombia, Mexico and Peru. Chile rose by 90 per cent, while Venezuela was a "disappointing" 34 per cent.

Although not usually classed as portfolio capital, there is another potential source of private capital that has been largely forgotten in recent years: the commercial banks.

If international banks are to become a more important source of finance for the region during the 1990s, the growth will be gradual. Not only will the experience of the 1970s make them cautious for some time to come; but, more important, it will also take time for banking regulators throughout the world to reduce the mandated provisions that banks have to make against loans to developing countries.

There is, however, scope for project investment – particularly where loans can be repaid through receivables arising from cross-border commerce – and support for companies planning direct investment: at the moment, most favoured source of foreign capital.

Foreign direct investment

Impact is significant

WHILE portfolio flows to all developing countries stagnated somewhat last year, the importance of foreign direct investment continued to grow.

According to the Organisation for Economic Co-operation and Development, international direct investment accounted for less than 20 per cent of total private capital flows to developing countries at the beginning of the 1980s. By 1987-89, this had risen to 60 per cent, in part because bank lending had dried up.

In Latin America, FDI is already having a significant impact on the region's balance of payments. While in 1988 it was equal to less than a third of the region's net transfers abroad on debt, estimates for 1992 show FDI almost equal to net transfers. Direct investment accounted for 65 per cent of Chile's capital inflows in 1991, and 35 per cent of Mexico's.

There is no doubt that contributory factors behind this increasing inflow have stemmed from within the region: the improved macroeconomic performance, more welcoming regulatory regimes, the decline in Latin America's economic nationalism and its privatisation programmes.

The development has also come against the background of an extraordinary boom in cross-border investment that continued throughout the 1980s, but which appears to have slowed down in the early 1990s as, one by one, the main industrial economies have sunk into recession.

In the 1980s, according to the OECD, the total stock of FDI boomed globally from about \$500bn in 1980 to \$1,500bn today. Worldwide flow of FDI grew in the 1980s at an unprecedented average rate of about 29 per cent, reaching close to \$200bn in 1990.

This growth rate was five times that of world exports and 10 times world output.

Such rapid growth meant that the percentage of FDI going to developing countries fell markedly in the 1980s, even as in absolute terms the amount rose.

The proportion going to developing countries declined from 20 per cent in 1980-84 to just over 10 per cent in 1985-89; Latin America's share of the total dropped from 7.4 to 3 per cent of global inflows and that of Africa from 2.5 to 0.6 per cent.

In the years 1985-90, when overall cross-border direct investment in industrialised countries was growing at around 30 per cent a year, FDI into Latin America was expanding at a more modest rate of 11 per cent.

ACCORDING to the figures, global FDI peaked in 1989 and fell in 1990 – a development in part related to the end of the debt-financed cross-border mergers and acquisitions boom in industrialised economies in the late 1980s. The OECD figures unfortunately stop in 1990 and therefore it is difficult to be more exact about developments since then.

However, there can be little doubt that overall cross-border FDI fell sharply in 1991 and 1992. Meanwhile, figures from the World Bank suggest continuing growth in FDI to all developing countries and into Latin America in 1991 and 1992. Indeed, 1989 appears to have marked a low point for the relative share that Latin America took in total FDI and in FDI to developing countries.

Thus it seems that the growth of foreign direct investment in the region is more than a function of the FDI boom of the 1980s. In some senses, this continued growth in developing countries may in part be a reaction to that boom: most acquisitions within the industrialised world during the 1980s are already considered to have been overpriced failures.

In part, aggressive privatisation – which can happen only once – has swollen the figures. Balancing this though, debt-for-equity swap programmes with subsidies for non-privatisation investments have been largely abandoned or have become irrelevant (as the secondary market prices of its debt rose close to face value) in the case of Chile.

According to Ms DeAnne Julius, chief economist of the Royal Dutch/Shell Group Latin America, the increased FDI flows to developing countries may be more than a short-term phenomenon. She calculates that FDI to developing countries could grow from \$30bn in 1990 to \$80bn (in 1990 dollars) in 2000, representing 30 per cent of world flows against 17 per cent in 1990. Latin America, she notes, overtook east Asia as an FDI destination in 1990.

The continued rise of FDI into Latin America is important too because it demonstrates that Latin America may have less to fear from eastern Europe than most of its governments thought perhaps two or three years ago.

Voices of dissent

ECONOMISTS, however, do not make foreign investment decisions. Producers do. And some producers are sceptical that the course now adopted in the region – the economic strategy praised so widely – will necessary yield the expected investment.

The Latin American head of one multinational holds a view of economic policies in Brazil and Argentina – two countries in which it has had long-standing operations – which is diametrically opposed to the conventional economic wisdoms.

He sees policy in Argentina, where his company is losing money, as disastrously damaging the country's economic structure: low tariffs and a high exchange rate have made imports cheap and forced him to cut prices. Meanwhile, because domestic inflation is slow to come down, his domestic costs structure is rising and his company is caught in a vice.

He describes Argentina as a wonderful place to export products to, but as an awful place in which to establish a factory. On the other hand, he is enthusiastic about Brazil, where his company is making significant profits but which economists view almost as an economic disaster zone.

Another large multinational, this time from the US, is cited as planning to invest heavily in Latin America – in one country: Brazil. This is because Brazil is the biggest home market and can be used as a base for the rest of Latin America. If the factories were to be established outside Brazil, the company believes it would find it almost impossible to sell into the largest domestic market.

Economists would argue that, while it is not unusual for producers to seek to extract benefits from import substitution, the policies that producers tend to favour tend to prop up inefficient industry. These policies have harmed Latin America in the past.

Furthermore, the whole point of opening the economy is to create more efficient industries where the country has a comparative advantage, and to close down uncompetitive plant. Thus, under the North American Free Trade Agreement between Canada, the US and Mexico, capital-intensive production could be expected to concentrate in the US; and labour-intensive production in Mexico, where it is cheaper.

Influences on foreign direct investors

Vehicle assembly work in Mexico. Component supply links between companies are important factors in attracting foreign investment

THE EXTENT of future development of regional free trade areas will have a significant impact on longer-term direct investment trends. Ratification of Nafta – due this year to go before the legislatures of the three countries – would provide an important pointer.

The huge direct investment into Europe in the 1980s ahead of the creation of the single market strongly suggests that companies are driven to invest not only by fears of future trade barriers but also by expectations of improved growth opportunities.

According to the International Finance Corporation, the private sector arm of the World Bank, market size is one of the most important considerations in making investment location decisions, while prospects for market growth are also particularly important. Larger "home" markets mean bigger local sales, which are usually more profitable than exports. Larger markets offer more diverse resources to make local sourcing more feasible.

According to the IFC, relative costs continue to play an important role in influencing decisions on the location of foreign direct investment. But some factors are now less important, in part because direct labour costs in many industries now account for only 10-15 per cent of manufacturing costs.

To encourage direct investment, many Latin American governments may be tempted to offer subsidies. A more sensible response would be further reforms, for example of the labour market. Social security and other systems act in many countries as a payroll tax and sharply raise the costs of employing labour while often providing marginal benefits to employees.

With the rising cost of white-collar workers, there is an important attraction if countries offer a pool of well-educated labour. Many Latin American economies are well-equipped to offer such labour, although there is often insufficient skilled labour. There is thus a gap between the highly educated and the unskilled workers, which can be filled only by improvements in education systems that have deteriorated over the last decade.

A country's legal system is also critically important. For foreign investors – as well as for ordinary citizens – the legal systems of the region leave much to be desired. Investors are conscious that while Latin America's judicial processes may be more developed than those of east Europe, they are still often arbitrary and prone to corruption. The dictum of the Mexican president Benito Juarez still often applies: "To my enemies the law; to my friends everything."

Perceived country risk also continues to be important to investors, but it is obviously less so in some industries where, for example, returns are high or where operations can be terminated rapidly without undue cost, such as garment assembly. The advertised fast payback period is presumably why some investors are willing to consider tourist developments in Cuba, where the risk of political upheaval is hardly remote.

Potential investors also look at the level of existing foreign investment for assurance and at the possibility of synergies developing as foreign firms become one another's suppli-

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ers. Such a development is already in evidence in the Mexican car industry.

The quality of infrastructure is an important determinant of the attraction of foreign direct investment. This underlines again – as in education – the importance of an appropriate public investment policy as an essential element in the encouragement of private investment.

FDI prospects depend also on what is happening in a company's traditional markets. Just as portfolio investors started looking at emerging markets when returns at home dropped, so corporate investors have stretched out to developing countries in an attempt to raise their returns on capital.

Some companies facing mature markets at home where they have to battle expensively with competitors for fractions of a percentage point in market share are increasingly looking for a foothold in fast-growing developing country markets. One illustration of this mature market phenomenon suggests it costs 10 times more to attract one new visitor to Disneyland than it did a decade or so ago.

Typical of these companies are those in what are now called fast-moving consumer goods. One such company is Nestlé, which first entered Latin America in 1876, selling to Brazil. It established its first sales office in Rio de Janeiro in 1914, with a factory in 1921. Today it has 70 plants and 30,000 people in Latin America, providing 11 per cent of Nestlé turnover. The region's share of the volume of production is higher than that, however, because controls have kept prices down.

Partly because of the general lifting of price controls, Nestlé is positive about the region. After a "lost decade", the company's sales in Argentina have trebled in a year. It expects profit margins to recover faster than sales, but investments will also be higher: its plans call for $2bn of investment in the region during the 1990s.

Unilever, the Anglo-Dutch household goods group, is looking favourably at Latin America and the Pacific and their sometimes "phenomenal" growth rates, contrasting them with the position in the US and Japan where the challenge is "the laborious winning of market share". In many developing countries, a small rise in GDP is enough to bring many new people into markets.

Pepsico said this month that it would invest about $750m over the next five years on its bottling operations, extending its distribution network and marketing its products more aggressively in Mexico.

COLGATE-PALMOLIVE is another company that has seen steady growth in its Latin American operations since 1985. Now the company is considering acquisitions in several countries, some of which would be sizeable. It is interested in extending joint ventures, such as that with Clorox in Mexico to manufacture bleach. It invested $50m in the region last year; in 1993 the figure could be significantly higher.

If they want to expand in Latin America, companies such as Colgate-Palmolive are likely to establish production facilities there rather than export: the reason is that the low value-to-weight ratio of its products makes it expensive to transport them.

There are other areas where the region appears attractive to foreign investors, as the interest in the privatisation of Argentine utilities – including British Gas's investment in the Buenos Aires gas distribution company – shows.

Service industries – hotels and financial services, for example – have also attracted foreign investment. Services have grown considerably in importance in worldwide FDI: they represented a quarter of FDI stock at the end of the 1970s, but by the end of the 1980s, they represented half of the FDI stock and 55-60 per cent of all new flows.

Yet, from the Latin American perspective, both service industries and utilities are areas where competition from foreign tradeable goods is limited – because there is no significant competition with imports. Moreover, privatisation encourages capital inflows, but it is a one-off phenomenon.

There is thus a need to look at the attraction of FDI in Latin America industry by industry. Chocolate, toothpaste, water, hotels and banking are important sectors, but it is still hard to see how direct investment in these areas is going to yield increased exports. And on this, the success of the model in large part depends.

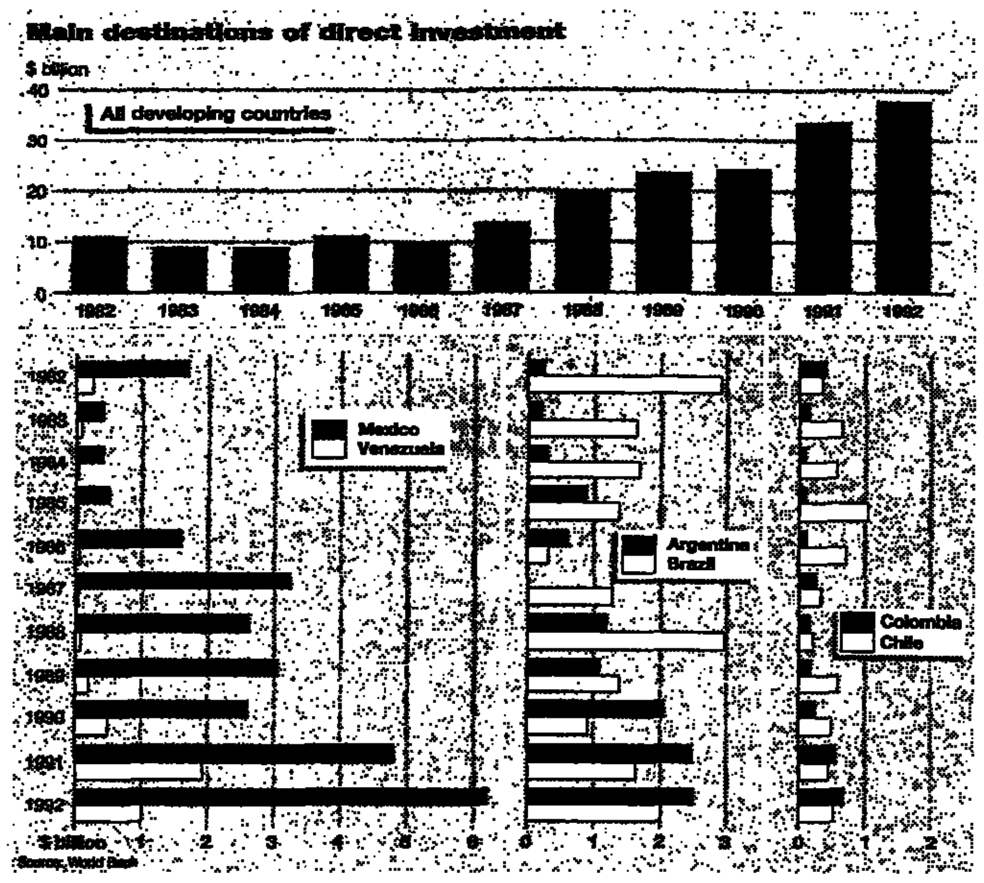
But there is one area where foreign direct investors regularly mention Latin America's comparative advantage: its wealth of natural resources. From the FDI perspective, the freedom that the Chilean government has given to foreign investors in exploiting its natural resources has been an important element of Chile's success in attracting investment. Yet many countries – including the region's two largest economies, Mexico and Brazil – have laws which substantially forbid foreign investment in the mining and oil sectors.

Foreign raw material exploitation will not provide the answer to the region's problems of development. But allowing it could well increase capital flows to the region during a potentially difficult transitional period when much domestic industrial capacity that depended on import substitution for survival is closed down.

In fact, the main benefit of FDI over time will lie more in the transfer of technology than in medium-term balance of payments financing. It fosters industrial development and the creation of human capital, and provides access to scarce technology, marketing links and management know-how.

Over a period of time, successful FDI entails a stream of service payments which will reduce the transfers of resources. US Commerce Department statistics show that in 1991 income from US direct investment in Mexico was $2.3bn, which exceeded new direct investment from the US in that year.

From 1965 to 1986, net transfers on FDI (that is new investment minus remitted profits) to all developing countries were either negative or only marginally positive. The current popularity of FDI in the region may therefore wane as remittances start adversely to affect the balance of payments.



In conclusion . . .

A positive but highly uncertain outlook

LATIN AMERICA'S new capital inflows have undoubtedly to be seen in part in the context of important changes in capital movements at a global level – the growing integration of capital markets across borders, institutions and financial market sectors. Traditional markets have matured. Businesses have become international in perspective, looking beyond their national borders for new products, customers and inputs. Improved transport and communications have facilitated this as has technological change and innovation.

Such changes suggest that, provided an open world trading system remains in place, long-term external structural reasons exist for continued flows of capital to Latin America.

Much still depends on a continuation of the developments in the region in the last five years: in particular, the better economic management and greater political stability. This will in turn hang on the results of the coming round of presidential elections in Latin America.

In some countries, these elections will be taking place in a transitional period: the initial glow from renewed capital inflows will have worn off, the shrinking of industry brought about by economic and trade reform will start to bite and the longer-term benefits of investment will have yet to become apparent.

Indeed, economic forecasts suggest slower growth for 1993. Widening trade deficits seem set to act as a drag on economies, as will interest rates set higher either to support a weak currency or to tackle high wage demands.

There will thus be the temptation to abandon the fight against inflation in a bid to restart growth. The World Bank points out that in a global marketplace there is a sharply-reduced tolerance for poor policies; yet this does not mean that governments will not try them.

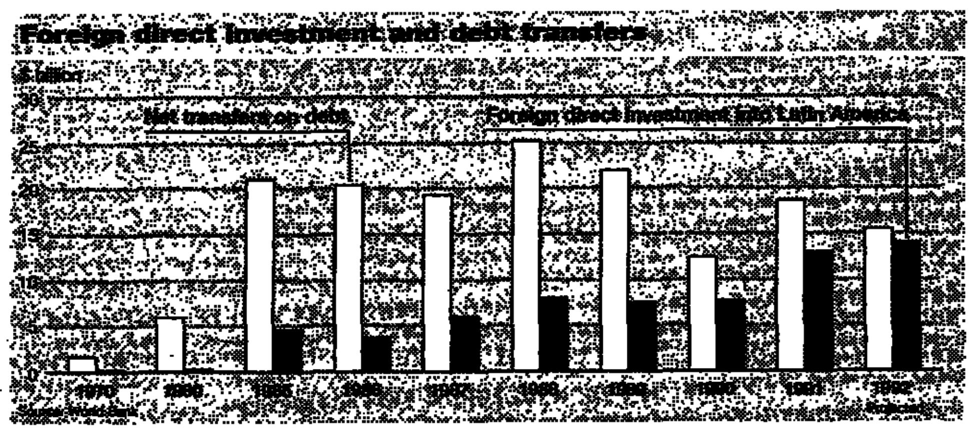
In part, longer-term prospects will be determined by how investors fare in Latin America in these transitional years. They also depend on investor behaviour in a US economic recovery and as US interest rates start to rise. According to the International Monetary Fund, in a study published this month: "Swings in private capital outflows from the United States play a key role as external impulses that affect the size of capital inflows into Latin America." Furthermore, despite the Brady settlements, some governments remain vulnerable to interest rate increases on their foreign debt.


Economic forecasts suggest slower growth this year

Foreign capital has been likened to an umbrella that opens in the sunshine and closes in the storm: it flows abundantly only when least needed. This underlines the importance of efforts under way to enhance domestic savings to reduce the reliance on foreign capital. For example, the pension fund reforms proposed in Argentina might add 2-3 percentage points to the domestic savings rate. However, increasing domestic savings is not something that can be achieved overnight and dependence on external savings seems likely to continue in most countries for some time. And even though there are many reasons why substantial capital inflows should continue through the 1990s, that is not to say that these will occur. There may well be significant year-to-year volatility in capital flows, and therein lies the rub.

If there is confidence in economic policy, then inflows may well be sustained. But if for whatever reason – perhaps something external to the economy – inflows slow dramatically, then confidence in economic policy could ebb, inducing further capital outflows. The chances of a collapse in confidence are greater when the exchange rate is seen as overvalued, a risk now being run both in Mexico and Argentina.

Latin American governments can play their part in reducing volatility by making sure their economic policy "fundamentals" are strong. But they are not masters of their own destinies, by any means.



Tracy Corrigan looks at the markets in Latin debt

Lines are blurring

THE NATURE of the Latin American debt market is changing rapidly, as an increasingly broad range of investors enters the market.

As this process advances, there has been a blurring of the strict delineation between Latin American country loans traded in the secondary market and new issues launched in the Eurobond market by both sovereign and corporate Latin American borrowers.

In the wake of the debt crisis, when many Latin American countries defaulted on their bank loans, the secondary market in their debt grew up as a result of trading by banks, largely creditor banks trying to lay off or manage their risk.

When Latin American sovereign and corporate borrowers returned to the Eurobond market a few years ago, these high-yielding bonds were initially bought largely by retail investors in Europe or by Latin American nationals (in the form of so-called flight capital).

But the region's recent record of strong growth and economic reforms has attracted new investors and a growing number of specialist funds. In fact, the market in secondary bank loans has now been virtually replaced by a market in Brady bonds, the restructured bank debt created under the Brady debt reduction plan.

Venezuela and Mexico have already implemented their Brady plans, and Argentina is poised to issue its Brady bonds.

Meanwhile, trading in Brazilian debt has stopped, ahead of the implementation of the Brady package there, which was agreed with Brazil's bank advisory committee last July, but has been disappointingly slow to come to fruition.

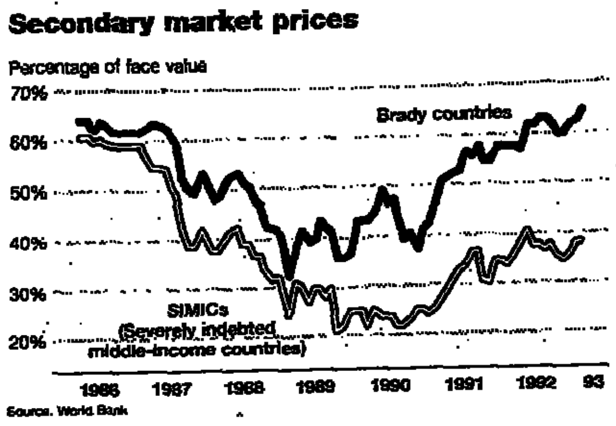
The conclusion of the package has been delayed by the need to get an International Monetary Fund agreement in place prior to the Brady plan. The IMF agreement in turn requires a new package of measures by the government which have, in turn, been delayed by political problems.

Meanwhile, trading in Brazilian bank debt has come to a standstill, because banks have already tendered for bonds under the Brady plan. Instead, trading is concentrated in IDU bonds (issued last year in lieu of interest payments) and in when-and-if-issued (WIFI) Brady bonds. Among other Brady bonds, Mexican par bonds have performed well, holding their spread relative to the US Treasury market until recently, despite the strong US market rally. However, the market in Venezuelan par and conversion bonds has been much more difficult – "there is a permanent political crisis: as a result, the fiscal deficit and current account deficits are mounting," says Mr Paul Luke, head of developing country research at Morgan Grenfell.

The price of the par bonds slumped a point to 56¾ in a week, despite the strong rally in the US market.

Meanwhile, the spread of investors in Latin American Eurobonds continues to increase, with even mainstream institutional investors beginning to dip their toes into the market, by buying Latin American securities as a small part of large and diversified portfolios.

Secondary market prices



Source: World Bank

AN appetite for extra yield, at a time when low interest rates are squeezing returns, has encouraged more investors to look at Latin American bonds. Although the market has been volatile, there has been, overall, a steady tightening of yield spreads relative to the US Treasury market in recent years, as the creditworthiness of Latin American borrowers has improved.

But the market suffered a setback at the end of last year, when oversupply caused yield margins to widen substantially. However, those wider margins, reviewed at the start of the year, started to attract investors back to the market.

As well as the broader range of investors, smaller Latin American countries are now returning to the market. Also, the market is now open to more Latin American companies, though investors remain nervous of weaker credits.

Colombia, which has never rescheduled its debt, will make its debut in early April, via Bankers Trust, with a $100m issue of five or seven-year Eurobonds, which is expected to attract strong demand.

Meanwhile, Uruguay, which completed its first Eurobond last year, is to return to the market with a five-year deal, arranged by Chase Investment Bank. Some bankers believe that Peru – or a government-owned company – may also tap the market this year, after having implemented a number of economic reforms last year. Ecuador is also cited as a potential new borrower.

However, bankers have become increasingly frustrated in their efforts to bring Chilean borrowers to the market. The government has clamped down on foreign borrowing, barring banks from tapping the market and restricting all but a few companies.

"Every time you get a mandate, the Chilean authorities change the rules – in effect, blocking the market," complains one banker.

Chile has an active domestic market, where funding of up to 20 years is available, but the amounts are small. In addition, banks are keen to raise dollars in the international market to on-lend to companies for their export business.

Borrowers are also beginning to tap markets other than the dollar market. Venezuela is said to be planning a DM350-400m issue of five-year bonds via Commerzbank (having just issued three-year dollar bonds in the domestic Colombian market), and Pemex, the Mexican oil company, recently tapped the Swiss franc bond market, for example.

Richard Lapper shows how pension funds can help promote local capital markets

Tough testing ground for reform

THE IMMINENT prospect of a far-reaching reform of Argentine pensions law is making life easier for Mr James Riley and Mr John Williams, who both work with UK-based merchant bank, Kleinwort Benson.

The two men have spent the last six months advising the Argentine government on the privatisation of the state-owned bank and insurance company, the Caja Nacional de Ahorro y Seguro.

The pension fund reform will lead to the rapid development of the private pensions and life insurance market, boosting both local and overseas interest in the Caja, which will expect to have a sizeable slice of the action.

That should improve the price the Argentine government should get for the sale – estimated by Mr Williams at between $60m and $100m – and provide a useful boost to the Latin American activities of Kleinwort and Coopers and Lybrand, the accountancy and management firm that is also involved.

"One of the key selling points of the Caja is its ability take advantage of the reform. It should help all round," says Mr Williams, who expects the privatisation to go ahead in the Spring.

But much broader interests hinges on the successful approval and implementation of a private funded pensions system in Argentina. At a time when virtually every Latin American government is considering the replacement of increasingly unwieldy "save-as-you-go" pensions schemes – in which pensions are paid out of current taxation and social security revenues – success in Argentina would be a huge fillip for the continent's pensions embryonic industry.

Local and foreign investors have been encouraged by the progress in Chile, where the pension system was privatised in 1981.

The more complex economic, social and political context offered by Argentina is likely to be a tougher testing ground for the idea that the development of private pension funds can contribute towards the successful modernisation and liberalisation of the continent's economies.

The success of Chile's pension fund reform has been hugely influential among the continent's politicians and businessmen. Chile replaced its pay-as-you-go system in 1981, with a law that obliged workers to contribute 10 per cent of their wages to private funds. Already over a dozen pension fund administration companies or *administradores de fondos de pensiones (AFPs)* have built up $12.5bn in funds.

These developments have

Much hinges on the approval of a privately funded pensions system in Argentina

been among a number designed to strengthen the local private sector.

The Santiago stock market, boosted by new issues stemming from an ambitious privatisation programme, has been given stability by the AFPs, who can invest up to 30 per cent of their assets in stocks, and have begun to function as institutional investors, owning about 10 per cent of the market's $30bn capitalisation.

The AFPs are also at the centre of the development of the only long-term debt market in Latin America. In 1989, Chile developed strong enough credit ratings to be able to sell bonds to the AFPs. Since then they have sold more than $5bn in bonds with maturities up to 27 years.

Last year Chile's AFPs enjoyed a 48 per cent return on their assets, tempting three European groups Banco Santander of Spain, Union des Assurances de Paris and Les Mutuelles du Mans Assurance of France to invest in the sector alongside US groups such as Bankers Trust, Aetna and American Insurance Group.

Talk of the Chilean experience dominated a recent conference on pension fund reform in San Diego, California. Mr Rudolf van der Bijl, an official with the International Finance Corporation, a World Bank subsidiary which promotes private sector development, told the conference: "The demand for marketable securities generated by the accumulation of long-term savings in the hands of funded pension plans can provide a strong boost to emerging markets."

Mexico, Peru and Argentina are presently drafting legislation to replace or complement their state systems with private retirement schemes other countries may soon follow suit.

Mexico has set up a new system that will co-exist with its existing social security system. The Argentine system will differ in some respects – banks and insurance companies will be allowed to own pension fund companies for example – and the government-owned Banco de la Nacion will compete with privately owned pension fund managers with its own facility.

The success of Chile's pension fund reform has strongly influenced the continent's politicians

But, in other respects, Argentina's model mirrors developments on the other side of the Andes. Argentine workers are likely to be forced to contribute 11 per cent of their salaries to pension funds of their choice. The stakes are high. If successful, Argentine pension fund managers could be managing $3.5bn within a year and up to $40bn within a decade, providing a valuable source of capital for the local stock market.

However, the transition could well be painful, partially because Argentina's social security is both more developed and under much more strain than those of its neighbours. The number of pensioners has roughly doubled compared to the number of workers making contributions. Employers contributions have been increased in response – 40 per cent of payroll is paid in social security taxes.

Even so, heavy arrears amounting to some $10bn have been accumulated and benefits have declined in real terms, leaving thousands of pensioners on incomes well below the official poverty level. Local newspapers have reported public suicides by distressed pensioners.

Advisers believe that the establishment of a fully funded scheme is the only way the problem can be tackled – "it is an absolutely crucial step to make," says Mr Riley. But the transition period will not be easy: he expects the move towards a new system will worsen problems in the short term, as new contributions are funnelled into investment funds rather than towards existing pensioners.

"In Chile, the system was introduced by an autocratic regime. The trick is to see whether it can be done in a democracy. It will be a real test in Argentina."